

**PROMETIC LIFE SCIENCES INC.**



**PROMETIC**  
LIFE SCIENCES INC.

**RENEWAL ANNUAL INFORMATION FORM**

Year ended December 31, 2001

APRIL 17, 2002

**NATIONAL INSTRUMENT 44-101**

**SHORT FORM PROSPECTUS DISTRIBUTIONS**

**FORM 44-101f1**

**ANNUAL INFORMATION FORM (“AIF”)**

**Item 1**

**1.1 Date:** April 17, 2002

**Item 2 – Corporate Structure**

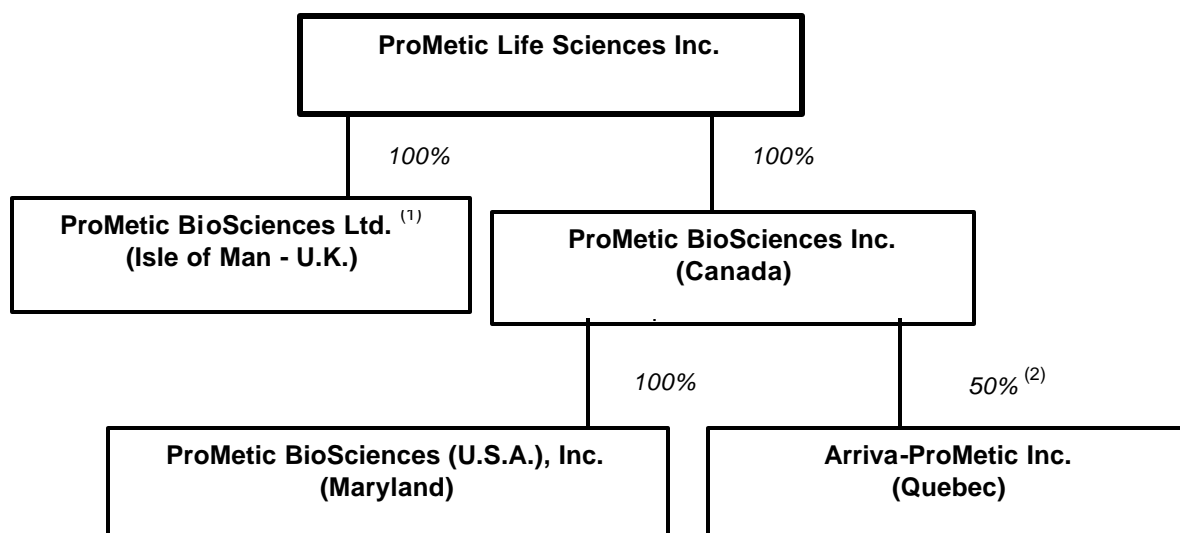
**2.1 Name and Incorporation**

ProMetic Life Sciences Inc. (the “Company” or “ProMetic”) was incorporated on October 14, 1994 under the *Canada Business Corporation Act*, originally as Innovon Life Sciences Holdings Limited.

Since October 14, 1994, the Company has amended its articles of incorporation by articles of amendment. On December 21, 1995, ProMetic amended its authorized share capital and removed the restrictions on share transfers. It also amended the provisions in its articles pertaining to the Company’s borrowing powers and those in respect of quorums at board of directors meetings. On June 6, 1996, the Company amended the provisions pertaining to the minimum and maximum number of directors. On April 10, 1995, October 10, 1995, June 19, 1997 and August 14, 1997, ProMetic again amended its authorized share capital. On May 19, 1998, the Company changed its name from Innovon Life Sciences Holdings Limited to ProMetic Life Sciences Inc. and simplified its authorized share capital structure. Hence, according to restated articles of incorporation dated May 19, 1998, the Company is authorized to issue an unlimited number of Subordinate Voting Shares, twenty million (20,000,000) Multiple Voting Shares and an unlimited number of preferred shares issuable in series. By certificate of amendment issued on February 16, 2000, the Company created its initial two series of preferred shares consisting of a maximum of one million fifty thousand (1,050,000) Series A Preferred shares and nine hundred and fifty thousand (950,000) Series B Preferred shares.

**2.2 Intercorporate relationships**

The following chart indicates the jurisdiction of incorporation of the Company’s direct and indirect operating subsidiaries, as well as the voting interest (expressed as a percentage) held or controlled by the Company in each subsidiary.



(1) Formerly known as Affinity Chromatography Limited.

(2) The remaining 50% is held by Arriva Pharmaceuticals, Inc. (formerly AlphaOne Pharmaceuticals, Inc.), the Company's joint venture partner in the development and marketing of serine protease inhibitors such as AAT. See p.12 of the 2001 Annual Report of ProMetic Life Sciences Inc.

### Item 3 – General Development of the Business

ProMetic Life Sciences Inc. is a publicly listed company (Toronto Stock Exchange: PLI) based in Montreal. Through its subsidiaries ProMetic BioSciences Ltd. and ProMetic BioSciences Inc., (hereinafter collectively referred to as "ProMetic" or the "Company"), ProMetic owns proprietary technology essential for use in large-scale drug purification, proteomics, medical devices and therapeutics.

#### 3.1 Three-Year History

In January 1999, (with retroactive effect to November 1, 1998), ProMetic acquired full ownership of ProMetic BioSciences Limited (UK), (formerly Affinity Chromatography Limited) which held a 34% interest in its subsidiary, ProMetic BioSciences Inc., thereby making these corporations wholly-owned subsidiaries with the objective to focus on value-added biopharmaceuticals.

In April 1999, ProMetic entered into its first therapeutic project through the creation of a joint venture, "AlphaOne-ProMetic Inc.", with Arriva Pharmaceuticals, Inc., (formerly AlphaOne Pharmaceuticals, Inc.) a California company. The objective is to develop serine protease inhibitors such as Alpha-1-antitrypsin (AAT) for treatment of dermatological, gastrointestinal and urological disorders, using worldwide patent rights.

In May 1999, ProMetic signed a collaboration agreement with Genzyme Transgenics Corporation ("GTC") for the purification of human Albumin Serum (hAS). ProMetic's Mimetic Ligand™ Technology is used in combination with GTC's to make a ton-scale process for Fresenius AG, cost-effective while achieving the volume and purity required by Fresenius AG.

In September 1999, the Company discontinued its generic pharmaceutical activities.

In September 1999, ProMetic signed a collaboration and license agreement with PowderJect Pharmaceuticals, PLC regarding the injection of drugs using ProMetic proprietary particles with a "pain-free" and "needle-free" injection device.

In December 1999, ProMetic granted a license to ZLB (the Central Laboratory of the Swiss Red Cross Foundation) for the purification of immunoglobulin from human plasma.

In January 2000, ProMetic signed a ten-year supply agreement with Provalis Diagnostics Ltd. for the supply of an essential component for the manufacture of Glycosal™, an innovative diagnostic test kit for diabetes.

In May 2000, ProMetic in-licensed of certain patent rights from Convatec (Bristol-Myers Squibb), enabling partnership in the development of improved biomedical devices applied to the treatment and diagnosis of cancer.

In June 2000, ProMetic signed a collaborative agreement with Integrated Protein Technologies (Monsanto) to develop a purification process for monoclonal antibodies obtained from transgenic plant expression programs and to manufacture for, and supply to IPT the products upon successful completion of the development phase.

In October 2000, ProMetic secured once again its position as a supplier of its advanced technology to the plasma fractionation industry through the signature of a collaborative agreement with Aventis Behring L.L.C. (Aventis) for the development of a purification process for Aventis.

In December 2000, another collaborative agreement was signed with Delta Biotechnology Ltd. ("Delta", an Aventis Behring company) to develop a purification process for a yeast derived recombinant human serum albumin (Recombumin®).

In December 2000, Delta announced the successful results of its large clinical trials for Recombumin® 20% for which ProMetic purification technology is used and scaled up.

In March 2001, ProMetic entered into a collaboration agreement with Menarini Biotech for the use of ProMetic's Mimetic Ligand™ Technology in connection with one of Menarini's biopharmaceuticals in phase III.

In April 2001, a strategic alliance was signed with Merck KGaA. The aim of this strategic alliance is to jointly market ProMetic's and Merck's capabilities (ProMetic's Mimetic Ligand™ Technology) in the purification of monoclonal antibodies (MAbs).

In July 2001, ProMetic announced the signature of a Memorandum of Understanding (MoU) with the American Red Cross to form a joint venture company for the development and the commercialization of detection and removal systems for viruses such as hepatitis A and human Parvovirus B19 and pathogens that may cause Transmissible Spongiform Encephalopathies (TSEs).

In July 2001, ProMetic announced that Fresenius AG exercised an option to gain additional rights to market recombinant human serum albumin (rHSA) relying on ProMetic's Mimetic Ligand™ Technology in North America and in Asia, except Japan.

In October 2001, ProMetic signed a license agreement with PharmaAware Sepsis B.V. for the use of ProMetic's technology in connection with diagnosis and treatment of sepsis and septic shock.

In November 2001, an International patent filing for PBI-1101 was made and completion of supportive data for International patent filing for PBI-1402 was finalized.

In December 2001, Merck & Co. initiated its first U.S. Pivotal Clinical Trial for vaccines product using Recombumin® (i.e. Delta's recombinant albumin) for which ProMetic's Mimetic Ligand™ Technology is used and scaled up.

Successful financing of \$19 million (gross proceeds) out of which \$9.9 million was concluded as of December 31, 2001.

### **3.2 Significant Acquisitions and Significant Dispositions**

None

### **3.3 Trends**

Three of the Company's compounds are expected to enter soon into clinical trials for the treatment of cancer and inflammatory conditions, each representing significant value to the Company.

The Company is seeking additional investments in order to solidify its short-term asset situation for the next 12 or 14 months of operations.

The Company must commit major financial resources before its products can be successfully developed and sales can be generated at a profitable level. The Company believes that its current short-term asset situation, combined with what it hopes to bring in during the 2002 financial year, will be sufficient to meet requirements for short-term liquidity with regard to operating expenses and capital expenditures for the next twelve months.

The issues addressed in the AIF are to some extent prospective. This means that for a number of reasons, actual results may be significantly different.

## **Item 4 - Narrative Description of the Company**

### **4.1 General**

#### **(1) Business of the Company**

ProMetic has a remarkable growth engine capable of materializing strategic agreements and developing high-value proprietary products. This stems from its core technology combined with its core competency. Over the years, significant investments have been made to further the scope of the company's proprietary position on vast libraries of compounds. These libraries form the basis on which ProMetic can develop its own proprietary therapeutics and collaborate with other companies, and expand and validate the use of its technology, thereby supporting an impressive pipeline of products.

#### **CORE TECHNOLOGIES**

##### **Mimetic Ligand™ and “Intelligent Combinatorial Chemistry (ICC)®”**

The drug discovery process has accelerated in recent years with the introduction of combinatorial chemistry, which allows millions of pharmacological agents to be screened in a relatively short time. ProMetic has applied this technology to the development of synthetic organic entities known as ligands that can be used in the separation and purification of biopharmaceutical products. Since the underlying mechanism is a very specific interaction between the naturally-occurring protein in blood or specific organs and the ligands, the ligands developed for purification purposes also have biomedical device applications and can be developed as distinct drugs. Over time, ProMetic has created its Intelligent Combinatorial Chemistry (ICC)®, which contains large quantities of Mimetic Ligands™ specific to certain classes of proteins such as monoclonal antibodies.

##### **Particles Technology**

Mimetic Ligands™ are attached to a support matrix such as agarose beads (PuraBead®) or fluorinated polymer. Therefore, each ligand, the binding chemistry and the bead are critical to the production of a final proprietary product, which is then incorporated into a bioseparation process or a particular medical device.

Agarose beads (Purabead®) are produced from a ProMetic proprietary process. Agarose is a natural carbohydrate derived from agar-agar in seaweed and is widely used in the bioseparation and food industries. As such, agarose is a very well known and documented raw material. The manufacturing process developed by ProMetic converts agarose into monodispersed beads to which the Mimetic Ligands™ are attached. The Fluorinated Polymers are also produced from a ProMetic regulatory process. The choice of the base matrix will vary according to the specifications required by particular applications. ProMetic has developed and/or acquired methods to attach its ligands to matrices.

#### **COMMERCIAL APPLICATIONS**

ProMetic leverages its platform technology by developing in-house “high value therapeutics” and medical applications and limits its risk exposure through partnerships with multinationals for product development, clinical trials and marketing.

By pursuing its business model, the Company also fosters growth by providing its enabling technology under license to pharmaceutical and biotech companies so as to enable them to develop proprietary products relying on ProMetic’s technology.

ProMetic expects to generate revenues through the sale of its own therapeutics and through the licensing of its enabling technology to corporate strategic partners with long-term supply agreements and annuity revenue.

For further information and details on each project pursued and their status, please refer to pp. 10 to 20 of the ProMetic Life Sciences Inc. 2001 Annual Report.

#### **COMPETITIVE CONDITIONS**

Competition in the biopharmaceutical sector is extremely intense. The Company competes with companies that produce similar or identical biopharmaceutical products or that proposes different approaches to the separation or purification of proteins. Many of such companies have greater resources than the Company. Accordingly, no assurance can be given that products developed by these other companies or that their equivalent technology in the area of separation or purification of proteins will not affect the Company’s competitiveness.

The Company believes that products based on its core technology will have numerous applications and that there is a growing market for the products that it has developed. However, there can be no assurance that these assumptions will prove justified, particularly considering competition from existing or new products and considering the uncertain commercial viability of the Company's products.

#### **AVAILABILITY AND SOURCES OF RAW MATERIALS**

The Company depends on third parties for the sourcing of components for its various products. The Company believes that alternative sources of supply for its various raw materials exist. However, any change by ProMetic in its supplier of components for its technology could have a significant impact on the Company's capacity to complete certain of its current research and development projects and, accordingly, would affect its projected commercial and financial growth. While other potential alternative suppliers of raw materials have been identified or are in the process of being determined, they must first pass intensive validation tests to ensure their compliance with product specifications. No assurance can be given regarding the successful outcomes of such tests.

#### **INTELLECTUAL PROPERTY RIGHTS**

The Company's success depends in part on its ability to obtain patents, protect its trade secrets and operate without infringing third-party exclusive rights or without others infringing the Company's exclusive rights or those granted to it under license. The Company has filed patent applications in Canada, the United States and elsewhere in the world and is actively pursuing these matters. The patent position of biopharmaceutical firms is generally uncertain

and involves complex legal, factual and scientific issues, several of which remain unresolved. The Company does not know whether any of its pending patent applications will be granted or whether the Company will be able to develop other patentable proprietary products. Furthermore, the Company does not know whether its existing or future patents will provide a competitive advantage or afford protection against competitors with similar technology. Furthermore the Company cannot give any assurance that such patents will not be challenged successfully or circumvented by others using alternative technology or whether existing third-party patents will prevent the Company from marketing its products. In addition, competitors or potential competitors may have independently developed products as effective as those of the Company or invented other products based on the Company's patented products.

Pharmaceutical and biopharmaceutical companies and research and development and academic institutions have filed patent applications for processes related to those of the Company of which may have an effect on the business of the Company. Some of these applications have been granted. Some of the processes and patents may conflict with the processes or patent applications of the Company, which could limit the scope of the patents that may be granted to the Company or even result in its patent applications being rejected.

If third-party licenses are required, there can be no assurance that the Company will be able to obtain such licenses, or if obtainable, that it would be available on reasonable terms. Furthermore there can be no assurance that the Company could develop or obtain alternative technologies related to third party patents that may inadvertently cover its products. Inability to obtain such licenses or alternative technologies could delay the market launch of certain ProMetic products, or even prevent the Company from developing, manufacturing or selling certain products. In addition, the Company could incur significant costs in defending itself in patent infringement proceedings initiated against it or in bringing infringement proceedings against others.

The Company cannot determine with any certainty if it has priority of invention in relation to a product or process covered by a patent application or if it was the first to file a patent application for any such invention. Further, in the event of patent litigation there can be no assurance that the Company's patents, if issued, would be held valid or enforceable by a court of competent jurisdiction or that that a court would rule that the competitor's products or technologies constitute patent infringement.

Moreover, a significant part of the Company's technological know-how constitutes trade secrets. The Company, therefore, requires that its employees, consultants, advisers and collaborators sign confidentiality agreements. However, there can be no assurance that such agreements provide adequate protection in the event of unauthorized use or disclosure of the Company's trade secrets, know-how or other proprietary information.

In particular, ProMetic is currently involved in a dispute with a Swedish company, Monogel AB ("Monogel"), regarding a technology license signed by ProMetic and Monogel in January 1996. Under the terms of the license, ProMetic was granted the right to use certain technology to which Monogel holds certain rights. The technology was to include a patented invention and specific know-how that presumably would have allowed ProMetic to produce beaded agarose on a continuing basis and in sufficient quantities for commercialization. The dispute arises from Monogel's claims that the technology currently used by ProMetic to produce beaded agarose on a commercial basis corresponds to the technology under license to ProMetic in 1996. After having obtained independent legal advice, the Company has concluded that the claim is without foundation. Accordingly, the Company is of the view that it may make use of its current technology to manufacture beaded agarose without any major risk that it will be successfully enjoined from so doing as a result of any legal action instituted by Monogel.

## **RELIANCE ON COLLABORATIVE PARTNERS**

The Company's strategy involves entering into various arrangements with corporate and academic partners, licensors, licensees and others for the research, development, clinical testing, manufacturing, marketing and commercialization of its products. Under such agreements, the Company may receive additional funding, including milestone payments. The Company also intends to enter into other similar arrangements with corporate partners for the development and commercialization of products based on its core technology. However, there can be no assurance that it will be able to establish such partnerships on favorable terms, or that its current and future partnership arrangements will prove successful.

Should any of its collaborative partners be unsuccessful in developing or commercializing a ProMetic product to which the partner has rights, or one of the partner's products to which the Company has rights, the Company's business could be adversely affected. Furthermore, while the Company believes that the current and future corporate partners have sufficient financial motivation to maintain their funding, there can be no assurance that these partnership arrangements will continue or that they will result in successful commercialization of the Company products. Should one of the Company's collaborators terminate its funding of a particular program, this could delay or interrupt the development or commercialization of the products resulting from such program. Moreover, there can be no assurance that the partners will not pursue other technologies or develop alternative products, either on their own or in collaboration with others, including competitors of the Company, as a means for developing products that treat the same diseases as those targeted by the Company's various programs.

## **ENVIRONNEMENT**

ProMetic produces a certain amount of chemical waste in its R&D and manufacturing activities, which is removed in accordance with the applicable environmental protection standards by companies that specialize in hazardous waste management. ProMetic research laboratories generate radioactive waste that is also removed by companies that specialize in hazardous waste management, in accordance with strict internal procedures and in accordance with the applicable regulatory requirements. Compliance with environmental protection requirements does not have a significant effect on the Company's capital expenditures or on its competitive position.

## **HUMAN RESOURCES**

As at December 31 2001, ProMetic had at its employ, on a consolidated basis, 75 employees working in research and development, manufacturing, sales, marketing and administration.

## **INTERNATIONAL BUSINESS**

Most of the Company's bioseparation and medical business is conducted on international markets and the Company expects this to continue. The majority of the Company's expenses are incurred in pounds Sterling. The sale of the Company's products on international markets is subject to the risks that are normally associated therewith, such as government regulation, import and export licence requirements, risks related to tariffs or trade barriers, and political and economic instability. While such risks have not to date had any material adverse effect on the Company, there can be no assurance that this will not occur in the future. Currency-related risks primarily concern appreciation of the Canadian dollar against a particular foreign currency. There can be no assurance that the Canadian dollar will not increase in relation to currencies, which could reduce the Company's returns on sales of its products expressed in Canadian dollars. Furthermore, there can be no assurance given against major currency fluctuations, which could create sizeable discrepancies in the prices of products in various countries requiring the Company to consider reducing its prices in certain currencies in order to balance the relative cost of its products. The Company neither holds nor issues financial instruments for commercial or hedging purposes.

## (2) Discontinuation of the Company's Generic Pharmaceutical Business

On September 30, 1999, ProMetic discontinued activities in its generic pharmaceuticals business when its subsidiary ProMetic Pharma Inc. ("Pharma") made an assignment in favour of its creditors generally under section 49 of the *Bankruptcy and Insolvency Act*, a course of action that gave rise to the following court proceedings:

- A Pharma creditor, is claiming \$2,021,619 from the Company pursuant to guarantees and agreements related to certain credit contracts concluded between this creditor and Pharma. The action was commenced on June 29, 2000. The most recent proceeding filed in the court record was a Notice of disclosure of a report from an expert witness expert on March 15, 2002.
- A Pharma creditor instituted an action on account claiming recovery of amounts owing to it. The claim is \$305,104.

The Company is contesting the claim of these creditors, and on the basis of the opinions provided by legal counsel, ProMetic is of the view that it has valid grounds for defence in respect of each claim.

## Item 5 – Selected Consolidated Financial Information

### 5.1 Annual Information

	12 Month Period Dec. 31, 2001	12 Month period Dec 31, 2000	12 Month period Dec 31, 1999
Collaboration Revenues	\$2,500,795	\$2,079,339	\$2,955,640
Loss from continuing operations	\$8,415,085	\$5,167,640	\$4,682,536
Loss per share from continuing operations	\$0.14	\$0.10	\$0.11
Net Loss	\$8,415,085	\$5,167,640	\$28,273,826
Net loss per share	\$0.14	\$0.10	\$0.66
Total Assets	\$24,311,995	\$14,187,437	\$7,467,809
Long-term Debt	-	-	\$1,150,114

#### Notes:

- i) Discontinuance of the generic pharmaceutical segment. On September 30, 1999, the subsidiary ProMetic Pharma Inc. ("the subsidiary") made an assignment for the benefit of its creditors generally under Section 49 of the *Bankruptcy and Insolvency Act*. This subsidiary represented the generic pharmaceutical segment of the Company.
- ii) Business acquisition: With retroactive effect to November 1, 1998, the Company acquired all the outstanding shares of Affinity Chromatography Limited (ProMetic BioSciences Ltd.), the minority shareholder of ProMetic BioSciences Inc., by the issuance of 1,200,000 Subordinate Voting Shares. By this acquisition, the Company consolidated its worldwide rights to the proprietary protein purification technology. The Company completed this transaction in January 1999. The acquisition was accounted for using the purchase method. Operating results from the effective date of acquisition are included in these financial statements.

### 5.2 Dividends

To date, the Company has not paid any dividends in respect of its outstanding shares nor in respect of any class of shares of its share capital, and it does not anticipate paying dividends in the foreseeable future. At the present time, the policy of the Board of Directors is to reinvest all available funds in operating activities. The Board will periodically review this policy.

## **Item 6 – Management’s Discussion and Analysis of Financial Position and Operating Results / Form 44-101F2**

### **GENERAL**

The management discussion and analysis of the financial position and operating results presented below should be read in conjunction with the consolidated financial statements and accompanying notes to be found in the 2001 annual report of ProMetic Life Sciences Inc. (pp. 28 to 45). All amounts are in Canadian dollars unless otherwise indicated.

### **OVERVIEW**

ProMetic Life Sciences Inc. (“ProMetic” or “the Company”) is in the process of becoming a major player among international biopharmaceutical companies. Through its subsidiaries in the U.K., the Isle of Man, in Canada and the U.S.A., ProMetic is active in researching, developing, manufacturing and marketing a variety of commercial applications that are based on its patented technology and used therapeutically for the large-scale purification of drugs, genomic products and proteomics, and for the discovery and development of drugs.

### **FINANCIAL ANALYSIS**

#### **Financial summary – “Shareholder yield and achievement of an important strategic agreement”**

As predicted in its 2000 annual report, the Company reached its goal of increasing shareholders’ value in 2001. Over the course of the year, the value of ProMetic shares increased by more than 150% (\$0.90/share to \$2.30/share), despite the collapse of the NASDAQ exchange last spring and the tragic events of September 11. Capitalizing on this excellent performance, the Company improved its liquidity by raising \$19.1 million, of which \$9.9 million was concluded as at December 31, 2001 and \$9.2 million was subscribed as at December 31, 2001. Out of this \$9.2 million, an amount of \$7.2 million had already been cashed at the date of signature of these financial statements.

From the beginning of 2001, the Company took a highly proactive approach to controlling its expenditures and capital asset investments. These measures allowed the Company to ensure the progression of its development projects in spite of a highly difficult economic and financial context. In addition, during the year, the Company signed a Memorandum of Understanding with the American Red Cross to develop systems capable of detecting and eliminating the pathogens that cause mad cow disease and a new variant of Creutzfeldt-Jakob syndrome.

#### **BALANCE SHEET – “A HEALTHY FINANCIAL CONDITION”**

The financial reorganization that started at the end of 1999 was completed. It allowed investors to significantly increase their level of confidence in the Company’s day-to-day management of operations and its future development.

Current assets reached \$13.2 million as at December 31, 2001 compared to \$5.3 million as at December 31, 2000. This increase is mainly due to subscriptions receivable of \$9.2 million as at December 31, 2001. As of March 15, 2002, the Company had received \$7.2 million with respect to the subscription.

Capital assets increased by \$536,000, corresponding to acquisitions of \$961,000 and an amortization of \$425,000. Intellectual property appreciated by approximately \$1.1 million; this increase amounts to 50% of company disbursements in Arriva-ProMetic, Inc., a joint venture to develop recombinant alpha-1-antitrypsin (\$1.3 million), and a \$199,000 amortization of all intellectual property. The Company undertook to disburse \$4 million U.S. in the joint venture, in which it holds a 50% interest. The Company records 50% of its commitment as “Intellectual Property” in consideration of the exclusive and perpetual license granted to the joint venture.

Deferred development costs increased by \$566,000 over the year, corresponding to a development cost capitalization of \$907,000, an amortization of these costs in the amount of \$232,000 and write-offs in the amount of \$109,000 during the year ending December 31, 2001. To this effect, the Company applies the same policies as those followed last year.

The Company's total assets increased from \$14.2 million as at December 31, 2000 to \$24.3 million as at December 31, 2001, representing an increase of \$10.1 million.

Current liabilities increased from \$1.9 million as at December 31, 2000 to \$3.3 million as at December 31, 2001, for an increase of \$1.4 million that can be attributed to the issuance cost of the subscriptions receivable (\$0.9 million) and to accounts payable and expenses of \$0.5 million concerning the increase in current R&D expenditures, in corporate business development expenses and capital assets acquisitions.

Shareholders' equity reached \$21 million as at December 31, 2001.

## **REVENUES**

Revenues for the year ended December 31, 2001 totaled \$2.5 million compared to \$2.1 million for the period ended December 31, 2000. This slight increase is due to product development contracts. The signing of cooperation agreements in 2001 and of new agreements in 2002 should result in an increase in R&D revenues next year. Most revenues correspond to payments from cooperation, R&D and development agreements. Revenues from sales of products that had reached the marketing stage represented less than 10% of the total.

Whenever appropriate, the Company's strategy may include taking an equity position in high-reward projects (in lieu of a one-time licensing revenue for signing an agreement). This allows ProMetic to further maximize the potential value arising from such high-profile projects.

The average period between a customer's adoption of ProMetic technology and the first commercial sale is approximately three to four years. Generally speaking, a customer must pass a series of development, scaling and preclinical validation stages before being in a position to submit documents to the appropriate regulatory agencies. During this period, ProMetic's revenues will increase gradually, thereby achieving stronger growth once regulatory approvals are adopted. The revenues for each product that reaches the marketing stage will be proportional to that product's market penetration and should sustain throughout the product's life cycle. The fact that ProMetic has chosen widespread partners will allow it to better distribute its technology-based products. The resulting rapid market penetration will accelerate the generation of future revenues.

## **EXPENDITURES**

### **"ACCELERATION OF R&D PROGRAMMES AND EXPANSION OF ITS THERAPEUTIC SECTOR"**

Total expenditures before R&D expenses, amortization of capital assets and intellectual property and financial costs were \$3.5 million in 2001 compared to \$2.8 million in 2000. This increase can be attributed to investments in corporate and business development and the expansion of commercial activities in Asia. The investment has proved to be a sound strategy, as the Company's shares increased from \$0.90 as at December 31, 2000 to \$2.30 as at December 31, 2001.

R&D expenditures increased from \$3.8 million as at December 31, 2000 to \$6.9 million as at December 31, 2001, representing an increase of \$3.1 million that can basically be attributed to: 1) the development of the therapeutic sector and the hiring of a therapeutic team in Montreal in anticipation of upcoming clinical trials and the increasing importance of the new drug discovery programme. The team expects to announce clinical studies of certain main components, such as PBI-1402 in chemotherapy and the anti-inflammatory rAAT, over the next few quarters; 2) the acceleration of the main development projects in drug purification.

Amortization of capital assets and intellectual property stood at \$624,000 for the year ended December 31, 2001, for an increase of \$63,000 over 2000. This increase is due to additional investments over the year. Financial revenues as at December 31, 2001 were \$63,000 compared to financial costs of \$101,000 for the year ended December 31, 2000. This decrease can be attributed to the Company's, having paid interest in 2000 on its long-term debt repaid that year, and to its having maintained a higher average cash balance in 2001 than in 2000, thereby generating greater interest revenues.

## **RESULTS**

Net losses for the fiscal year ended December 31, 2001 stood at \$8.4 million (\$0.14 per share) compared to \$5.2 million (\$0.10 per share) for the twelve-month period ended December 31, 2000. The reasons for this difference are fully explained in the "Revenues" and "Expenditures" sections above.

## **CASH FLOWS**

During financial year 2001, cash flows used for operating activities reached \$7.6 million compared to \$5.2 million for the financial year ended December 31, 2000. This increase is mainly due to an increase in operating losses of \$3.2 million, which was itself due to an increase in R&D expenses (see additional comments in the Expenditures section).

For the twelve-month period ended December 31, 2001, cash flows from financing activities were mainly attributable to the issue of subordinate voting shares worth \$9.9 million, net of share issue expenses of \$955,000.

During financial year 2001, cash flows from investing activities amounted to \$893,000 compared to \$5.7 million for the financial year ended December 31, 2000, an improvement of \$4.8 million constituted as follows: receipt of a short-term investment in financial year 2001, thereby creating a positive difference of \$4 million; reduction of investment needs (acquisition of an investment) by \$1.5 million in 2001 following the finalization of the Company's participation in Arriva Pharmaceuticals, Inc. in 2000; reduction by \$90,000 of additional capital assets during the financial year ended December 31, 2001; investments of \$1.2 million in intellectual property attributable to our participation in the Arriva-ProMetic, Inc. joint venture (see balance sheet section), and a \$467,000 reduction in the level of deferred development costs (see Balance Sheet section).

During financial year 2001, Company activities generated \$0.3 million in cash and cash equivalents, compared to \$1.5 million during financial year 2000.

## **OUTLOOK**

### **"A STRATEGIC POSITION IN NICHE AND HIGH-GROWTH MARKETS"**

The Company should announce important stages in the realization of its R&D programmes over the next few quarters. This will help to increase investor and analyst interest. Management will continue to maintain rigorous control of all Company operations.

Since 1999, the Company has repositioned itself to maximize its value and minimize risks inherent to its development. Its approach is to sign development agreements with customer-partners who agree to defray development costs. In the majority of cases, the Company also signs production agreements that will allow it to obtain a profit margin on product manufacturing and a royalty on the sale of finished products using ProMetic's technology. In certain targeted markets with strong growth potential, the Company has secured other source of revenue through equity participation in companies that will market these potentially highly profitable products. This is the case with recombinant alpha-1-antitrypsin, for which ProMetic will obtain 50% of the future revenues of Arriva-ProMetic, Inc., in addition to an equity participation in Arriva Pharmaceuticals, Inc. This is also the case for the development of systems capable of detecting and eliminating the pathogens that cause mad cow disease and Creutzfeldt-Jakob syndrome, with a participation in the joint venture resulting from the future association with the American Red Cross. Through its recent signing of a Memorandum of Understanding with the American Red Cross, the Company has confirmed the value and potential of its technology. Many now consider ProMetic to be indispensable.

The Company must commit significant financial resources before products can be developed successfully and revenues are high enough to generate profit. The Company believes that its current liquid assets, combined with those to be obtained during 2002, will be sufficient to meet its needs for liquid assets associated with operations and capital asset expenditures over the next twenty-four months.

The issues dealt with in this management discussion and analysis of the financial condition and operating results, are of a somewhat forward-looking nature. Consequently, for various reasons, the actual results obtained may be substantially different.

#### QUARTERLY INFORMATION

	Fourth Quarter 2001	Third Quarter 2001	Second Quarter 2001	First Quarter 2001	Fourth Quarter 2000	Third Quarter 2000	Second Quarter 2000	First Quarter 2000
Revenues	\$565,454	\$1,111,096	\$446,752	\$377,493	\$464,792	\$397,127	\$346,134	\$871,286
Net loss	\$2,728,203	\$1,856,903	\$2,158,067	\$1,671,912	\$1,245,536	\$1,553,489	\$1,337,089	\$1,031,526
Net loss per share	\$0.04	\$0.03	\$0.04	\$0.03	\$0.02	\$0.03	\$0.03	\$0.02

#### Item 7 - Market For Securities

ProMetic's Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbol PLI.

#### Item 8 - Directors And Officers

##### Directors

The following table sets forth the names of all the directors, their position with the Company, their present principal occupation and the year in which they became a director of the Company.

(The present term of each director will expire immediately prior to the election of directors at the annual shareholder's meeting to be held on May 15, 2002).

## Directors

Name and Municipality of Residence	Position with the Corporation	Director Since	Principal occupations within the five preceding years
Pierre Laurin Montréal, Quebec	Director and Chairman	1994	Chairman, President and Chief Executive Officer, ProMetic
Roger Garon <sup>(2)</sup> Verdun, Quebec	Director	1995	Chairman, Multivet Ltd (a Veterinary Products Company)
Barry Gibson Naples, Florida, USA	Director	1994	Barry Gibson, Consultant
Claude Lemire <sup>(1)</sup> Westmount, Quebec	Director	1997	Claude Lemire, Consultant
Roger A. Perrault <sup>(2)</sup> Ottawa, Ontario	Director	1998	President, R.A. Perrault Consultants Inc. (a Consulting Company)
Hans W. Schmid <sup>(2)</sup> Zug, Switzerland	Director	1998	Chairman, HPC Healthcare & Pharma Consulting AG (a Consulting Company)
Sadok Besrou <sup>(1)</sup> Westmount, Quebec	Director	2000	President, Placements Sadobex Inc.
Robert Lacroix <sup>(1)</sup> St-Bruno, Quebec	Director	2000	Senior Vice-President CTI Capital Inc.
John Bienenstock Toronto, Ontario	Director	2000	Professor, Medicine & Pathology Sciences Faculty of Health Physician, Scientist and Consultant McMaster University (Ontario)

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(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

## Officers

The following table sets forth the name of each ProMetic officer, his or her municipality of residence, his position with ProMetic, the principal operating subsidiaries in which each officer currently holds office as of the date hereof, the year he took up his position and the positions held for the last five years at ProMetic.

## Officers

Name and Municipality of Residence	Position	Since	Other principal occupation during the last five years
Pierre Laurin Montréal, Quebec	Chairman of the Board, President and Chief Executive Officer, ProMetic	1994	N/A
André Bédard Rosemère, Quebec	Executive Vice-President and Chief Financial Officer, ProMetic	1999	President, Conseils Vision A. Bédard Inc.
Steve Burton Cambridge, England	Vice-President Research and Development, BioSciences (UK)	1999	Director R & D, Affinity Chromatography Limited (UK)
Peter Bonnett Silver Spring, Maryland	Vice-President, North American Operations, BioSciences (U.S.A.)	1994	N/A
Michelle Laflamme Montreal, Quebec	Corporate Secretary and Legal Counsel, ProMetic	1999	Lawyer, Private Practice

### Security Holdings

The number and percentage of securities of Subordinate Voting Shares and Multiple Voting Shares of the Company or its subsidiaries beneficially owned directly or indirectly, or over which control or direction is exercised, by all directors and executive officers of the Company as a group is:

	Number	%
Subordinate Voting Shares	1,620,074	4.37 %
Multiple Voting Shares	13,076,375	92.67 %

The information as to the number of Subordinate Voting Shares and Multiple Voting shares beneficially owned or over which control is exercised, not being within the knowledge of the Company, has been provided by each director.

### Item 9 - Additional Information

The Company will provide to any person, upon written request made to the secretary of the Company (6100, Royalmount Avenue, Montréal, Québec H4P 2R2, telephone: 514 496-2115):

- (a) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities.
  - i) one copy of the AIF of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF;
  - ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the Issuer subsequent to the financial statements for its most recently completed financial year;

- iii) one copy of the information circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate; and
  - iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus and are not required to be provided under I) to iii) above, or
- (b) at any other time, one copy of any other documents referred to in (a) i), ii) and iii) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interest of insiders in material transactions, where applicable is contained in the Company's information circular for its most recent annual meeting of shareholders that involved the election of directors, and additional financial information is provided in the Company's comparative financial statements for its most recently completed financial year.

Dated at Montréal, Québec, this 17<sup>th</sup> day of April 2002.

**ProMetic Life Sciences Inc.**

(signed) *Pierre Laurin*  
per: Pierre Laurin  
President and CEO

(signed) *André Bédard*  
per: André Bédard  
Executive Vice-President and CFO