

PROMETIC LIFE SCIENCES INC.



ANNUAL INFORMATION FORM

Year ended December 31, 2005

March 29, 2006

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Forward Looking Statements

This Annual Information Form contains forward-looking statements about ProMetic's objectives, strategies, financial condition, results of operations and businesses.

These statements are "forward-looking" because they are based on our current expectations about the markets we operate in and on various estimates and assumptions.

These statements could be materially different from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statement will materialize; forward-looking statements do not take into account the effect that transactions or non-recurring items announced or occurring after the statements are made may have on our business; we assume no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason. You will find a more detailed assessment of the risks that could cause our actual statements to materially differ from our current expectations in this Annual Information Form under the heading "*Risk Factors*".

Unless otherwise specified herein, the information specified in this Annual Information Form is presented as at December 31, 2005.

1 – CORPORATE STRUCTURE

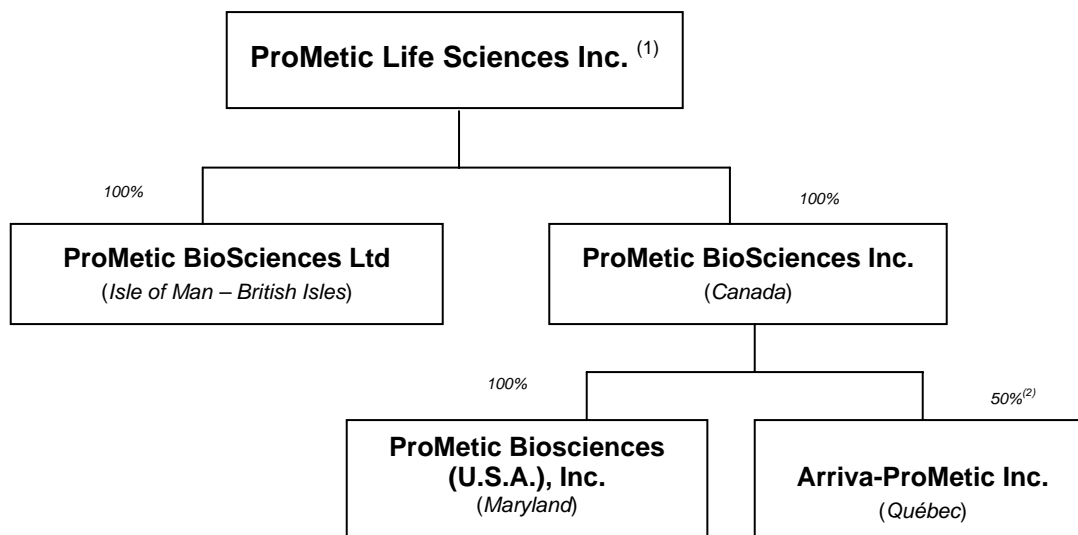
1.1 Name and Incorporation

ProMetic Life Sciences Inc. (the "Corporation") was incorporated on October 14, 1994 under the *Canada Business Corporations Act*, originally as Innovon Life Sciences Holdings Limited. As at the date hereof, its head office and registered office is located at 8168 Montview Road, Mount-Royal, Québec, H4P 2L7, Canada.

Since October 14, 1994, the Corporation has amended its articles of incorporation by articles of amendment. On December 21, 1995, the Corporation amended its authorized share capital and removed the restrictions on share transfers. It also amended the provisions in its articles pertaining to the Corporation's borrowing powers and those in respect of quorums at board of directors meetings. On June 6, 1996, the Corporation 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, the Corporation again amended its authorized share capital. On May 19, 1998, the Corporation 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 Corporation 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 Corporation 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 fifty thousand (950,000) Series B Preferred shares.

1.2 Intercorporate Relationships

The following chart indicates the jurisdiction of incorporation of the Corporation's direct and indirect operating subsidiaries, as well as the voting interest (expressed as a percentage) beneficially owned, controlled or directed by the Corporation in each subsidiary. The Corporation owns, controls or directs the same percentage of equity securities in each subsidiary.



- (1) The Corporation is also a shareholder of Pathogen Removal and Diagnostic Technologies Inc., a joint-venture company with the American National Red Cross. Subsidiaries formed after the last day of the Corporation's most recently completed financial year or that do not meet significance tests prescribed by applicable securities laws and regulations regarding their total assets and sales or operating revenues are not shown in this corporate chart.
- (2) The remaining 50% is held by Arriva Pharmaceuticals, Inc. (formerly AlphaOne Pharmaceuticals, Inc.), the Corporation's joint-venture partner in the development and marketing of serine protease inhibitors such as rAAT.

2 – GENERAL DEVELOPMENT OF THE BUSINESS

The Corporation is a publicly listed biopharmaceutical company (Toronto Stock Exchange: PLI.SV) based in Montréal. Through its subsidiaries (hereinafter collectively with the Corporation referred to as "ProMetic"), including ProMetic BioSciences Ltd and ProMetic BioSciences Inc., ProMetic is engaged in the development, manufacture and commercialization of products for the biopharmaceutical industry. ProMetic's proprietary technology is key to the development and manufacture of proteins. It has commercial applications in a wide range of areas, from proteomics to industrial biopharmaceutical manufacturing, and from blood product safety to diagnostics and therapeutics. ProMetic further leverages its competency and expertise in protein therapeutics and medicinal chemistry by developing proprietary, value-added therapeutics.

2.1 Three-Year History

2005

A successful convertible debt financing by way of private placement was closed by the Corporation in December 2005 and January 2006. The Corporation issued senior secured convertible notes in the aggregate face amount of US\$11.2 million, for aggregate gross proceeds of US\$8.9 million to be used for general corporate purposes. US\$7.6 million of the gross proceeds were received in December 2005 and \$1.3 million in January 2006.

In December 2005, the Corporation announced the completion of the phase I trial of PBI-1402, ProMetic's therapeutic compound in development for the treatment of patients with anemia. Results continued to show a good safety profile and were consistent with internal studies to the effect that PBI-1402 appears to exert its effect by a different mechanism of action than erythropoietin ("EPO"). Results showed an additive effect of PBI-1402 with EPO on human progenitor cell proliferation *in vitro*, thereby suggesting a potential use of PBI-1402 alone or in combination with EPO for the treatment of anemia.

Also in December 2005, the Corporation announced that Mr. Christian Frayssignes would be appointed as chief executive officer to lead the Corporation's animal care unit to develop and commercialize of a diagnostic for bovine spongiform encephalopathy ("BSE") in blood samples taken from live cattle.

In November 2005, ProMetic's North American licensee for the Plasma Protein Purification System ("PPPS"), Hemosol LP ("Hemosol"), and its general partner Hemosol Corp filed notices of intention to make a proposal to their creditors. ProMetic sold the shares that it previously held in Hemosol Corp. The PPPS technology, based on ProMetic's Mimetic Ligand™ technology and developed by ProMetic and its partners, consists of a series of filtering steps through which human plasma is processed to recover certain blood plasma proteins that have therapeutic value in higher yields than with other commonly used plasma fractionation processes.

Also in November 2005, the Corporation announced that its Board of Directors had approved a reorganization plan under which its business will be structured as a parent company with four operating units: (i) ProMetic Biosciences Ltd, for the development of bioseparation products based on applications of its proprietary Mimetic Ligand™ technology; (ii) the therapeutic operating unit, for the development of compounds aimed at the treatment of cancer and autoimmune diseases/inflammation; (iii) the biotherapeutics operating unit (now under ProMetic BioTherapeutics, Inc., formed in 2006), for the isolation and recovery of therapeutic proteins from plasma, and (iv) the animal care unit, in a joint venture to be formed by the Corporation and Top Meadow Life Sciences Inc. ("Top Meadow"), for the development and commercialization of a diagnostic test for BSE in live cattle using technology licensed by Pathogen Removal and Diagnostic Technologies Inc. ("PRDT"), the Corporation's joint venture with the American National Red Cross and two other partners.

In October 2005, the Corporation announced positive results of the prion endogenous (whole blood) infectivity study co-sponsored by PRDT, its partner MacoPharma S.A. (a leader in the industry of blood collection systems and transfusion solutions in Europe), and ProMetic, showing that PRDT's proprietary technology removes all detectable blood-borne TSE infectivity from whole blood. Transmissible spongiform encephalopathy ("TSE") diseases are fatal brain diseases that include BSE or "mad cow disease" in cattle, Creutzfeldt-Jakob Disease (vCJD) in humans, and "scrapie" in sheep.

In the Fall of 2005, the Corporation was designated a top 50 Canadian technology company in the “Deloitte Canadian Technology Fast 50” program that recognizes companies with the fastest growth over a five-year period.

In June 2005, the Corporation successfully closed a \$15 million public offering, in which it issued 30,000,000 subordinate voting shares in its share capital at a price of \$0.50 per share.

In June 2005, ProMetic announced that it had entered into a Memorandum of Understanding (MOU) with Top Meadow for the development, marketing and distribution of prion diagnostic systems for the *ante-mortem* detection of BSE and certain other veterinary applications, under PRDT licensed technology.

In April 2005, the Corporation announced the successful scale-up by Hemosol of the PPPS process technology at 30 litres. This achievement triggered a \$4 million milestone payment, of which \$3 million was paid in newly issued shares of Hemosol Corp. PPPS technology was presented at the fourth International Plasma Product Biotechnology Conference in May 2005.

2004

ProMetic announced in December 2004 the creation of BioMena S.A., the result of an alliance among ProMetic, the Tunisian government and financial partners to manufacture biopharmaceutical products for the treatment of diseases such as anemia, cancer, hepatitis and multiple sclerosis and market them to Middle East, North-African countries (MENA) and selected European markets.

In December 2004, a judgment of the Superior Court of Québec was rendered in favour of the Bank of Montreal regarding claims in the aggregate amount of \$2,406,329 (plus interests and additional indemnity as provided by law) by the bank, following the discontinuation in 1999 of a generic business by a former subsidiary of the Corporation, ProMetic Pharma Inc. The Corporation has appealed this judgement. Please refer to the section entitled “*Legal Proceedings*” in this Annual Information Form.

Also in December 2004, ProMetic announced test results showing good tolerability and positive effects of ProMetic’s PBI-1402 compound confirming the increase of red blood cell precursors.

At the end of 2004, ProMetic signed a development agreement with Octapharma AG, a Swiss-based plasma fractionation specialist, providing access to ProMetic’s Mimetic Ligand™ affinity technology.

In November 2004, international business analysts Frost & Sullivan announced their yearly industry leadership awards, naming ProMetic as technology leader of the year in the bioseparation industry.

In November 2004, ProMetic completed a significant milestone in connection with its March 2004 custom ligand development agreement with Serono worth \$1.3 million based on ProMetic’s Mimetic Ligand™ technology, by achieving purity and yield requirements through the scale-up process.

In October 2004, ProMetic announced the results of two clinical trials on the safety and efficacy of recombinant Alpha 1-antitrypsin (“rAAT”) in a topical gel formulation, conducted by Arriva-ProMetic Inc., a joint venture between ProMetic and Arriva

Pharmaceuticals, Inc. Results obtained in a Phase II trial in the U.K. with a pediatric population with severe dermatological disorder were encouraging, with improvement in 3 of the 5 patients treated. A Phase II trial performed in Canada in patients with atopic dermatitis demonstrated that patients did not show a statistically significant clinical outcome. Scientists are evaluating whether this could be related to the formulation.

In August 2004, PRDT announced a strategic alliance with MacoPharma to develop and market pathogen reduction filters for blood and blood products.

In July 2004, ProMetic entered into an agreement with the pharmaceutical company GlaxoSmithKline to develop a series of ligands based on ProMetic's Mimetic Ligand™ technology, for use in the purification of biopharmaceuticals. This program was ended prematurely during 2005 when GlaxoSmithKline put certain of its initiatives on hold, but other development programs with this client are ongoing.

June 2004 saw ProMetic finalize a licensing agreement with Hemosol for the PPPS developed through ProMetic's second alliance with the American National Red Cross. The agreement provides for a staged license fee of \$15.5 million payable to ProMetic upon the achievement of certain milestones, as well as a total of 3 million shares in the capital of Hemosol Corp. (of which 2 million were received in 2003) and ongoing royalties.

In April 2004, PRDT announced that *in vitro* testing of its prion blood filter on red blood cell concentrate demonstrated the reduction of the number of abnormal prion proteins to undetectable levels. This equates to 99.99% infectivity reduction.

2003

The authorization for an oral dose safety and efficacy study of PBI-1402 in healthy human volunteers was received in the Fall 2003.

An equity financing, totalling \$20 million was closed on December 24, 2003, and an additional \$3 million was received through the exercise of the over-allotment option in January 2004.

In December 2003, ProMetic entered into an exclusive worldwide agreement with Mitra Technological AB (Lund, Sweden) ("Mitra") for the manufacture and supply of the key component of Mitra's new medical device Mitradep®, developed for use in the area of cancer therapy and cancer diagnosis.

In December 2003, ProMetic signed a strategic agreement with Hemosol Inc. (now Hemosol LP) for the in-licensing of the PPPS technology for North America.

In November 2003, PRDT presented the first product to reduce TSE infectivity, responsible for the transmission of vCJD, from plasma derived products.

In October 2003, ProMetic entered into a strategic alliance with *Institut Pasteur de Tunis* and *La Pharmacie Centrale de la Tunisie* to set-up a biopharmaceutical company in Tunisia to manufacture and market affordable high value drugs for North-Africa, the Middle-East and part of Europe.

In October 2003, Arriva-ProMetic Inc. initiated a Phase II clinical study to evaluate its candidate rAAT topical gel in patients with atopic dermatitis.

In August 2003, Arriva-ProMetic Inc. successfully completed a Phase I clinical trial for its rAAT topical gel in patients with atopic dermatitis.

In May 2003, ProMetic expanded its collaboration with Aldevron, LLC to develop and market a new technology for the purification of gene therapy and DNA vaccine products.

During the year 2003, an additional patent application for niche indications was filed following positive results with PBI-1402 on human cell culture, and new lead candidates were identified and progressed in pre-clinical studies.

In February 2003, ProMetic entered into a strategic alliance with the American National Red Cross aimed at developing and marketing the PPPS technology to recover a wide range of therapeutic proteins from plasma.

3 – DESCRIPTION OF THE BUSINESS

3.1 General

ProMetic is made up of four units, (i) ProMetic BioSciences Ltd, (ii) the Therapeutic operating unit, (iii) the Biotherapeutics operating unit and (iv) the ProMetic Animal Care unit.

a) *ProMetic BioSciences Ltd*

ProMetic BioSciences Ltd., a company formed under the laws of the Isle of man, is responsible for developing the Mimetic Ligand™ technology that has become the base for many of ProMetic's partnerships and joint ventures.

ProMetic BioSciences Ltd's Mimetic Ligand™ affinity technology relies on unique and proprietary synthetic organic entities called ligands. These compounds can be compared to chemical hooks that selectively recognize and bind targeted proteins. Used in bioseparation applications, they can reduce manufacturing costs and improve the purity of biopharmaceutical products. Alternatively, ligands can be designed to bind impurities such as undesirable proteins or toxins (i.e. biocontaminants) that must be removed from the final therapeutic product.

ProMetic's enabling technology has commercial applications in a wide range of areas, from proteomics to industrial biopharmaceutical manufacturing and from blood products safety to diagnostic and therapeutics.

Partners use ProMetic's enabling technology to enable or improve the manufacture of their own therapeutics, both in terms of product yield and safety. In addition to improving manufacturing costs and processes of established marketed therapeutic products, ProMetic's technology is also applied to the development of second generations of recombinant therapeutic products.

b) *The Therapeutic Unit*

Based in Montréal, Canada, the Therapeutic operating unit has brought two drug candidates into clinical trials and has a number of other compounds in pre-clinical testing. ProMetic develops drugs internally that target medical needs where standard therapies are either in limited supply or economically burdensome.

The phase I trial of PBI-1402, ProMetic's therapeutic compound in development for the treatment of patients with anemia, was completed in 2005. Results confirmed a good safety profile and were consistent with internal studies to the effect that PBI-1402 appears to exert its effect by a different mechanism of action than EPO and showed an additive effect of PBI-1402 with EPO on human progenitor cell proliferation *in vitro*. This suggests a potential use of PBI-1402 alone or in combination with EPO for the treatment of anemia. ProMetic expects to begin in 2006 a phase Ib/II clinical trial targeting chemotherapy and/or cancer induced anemia.

ProMetic's second lead compound, PBI-1393 is a potential treatment for breast, pancreatic, colorectal, cervical cancers and metastatic melanoma. PBI-1393 is a novel chemical entity. In 2006, ProMetic expects to initiate a Phase Ib clinical trial of PBI-1393 to demonstrate safety of the drug. A contract research organization has been engaged to prepare the trial protocol, and the clinical material was produced to execute the study.

ProMetic has developed novel molecules for the treatment of autoimmune diseases such as psoriasis, lupus and arthritis. Animal models have produced encouraging results. In 2007, ProMetic anticipates selecting its first autoimmune disease drug candidate to enter clinical trials.

c) The Biotherapeutics Unit

This operating unit exploits the PPPS technology, as well as other ProMetic proprietary bioseparation technology to isolate and extract therapeutic proteins from blood plasma. The PPPS process, developed in collaboration with the American National Red Cross, is a sequence of capture steps based on ProMetic's Mimetic Ligand™ technology to recover various plasma proteins, at higher yields than other commonly used plasma fractionation methods. ProMetic's technology can also be employed by plasma fractionators seeking to harvest single proteins more efficiently or to recover certain proteins that cannot be extracted effectively by current manufacturing practices.

Three commercial applications will be pursued by this unit: (i) licensing improved process solutions to increase recovery yields for hyperimmunes (highly purified specialty antibodies made from human plasma). Given the scarcity of donors of such type of plasma, yield becomes very critical; (ii) licensing the PPPS process for established plasma proteins in order to recover multiple proteins at higher yield per litre of plasma processed. Such therapeutic proteins include immunoglobulin G (IgG), alpha 1-proteinase inhibitor (A1PI), fibrinogen, von Willebrand factor/factor VIII (vWf/FVIII), albumin and other proteins; and (iii) using its technology for the recovery of certain proteins that have established therapeutic value but cannot be extracted effectively by current manufacturing practices or that are not the focus of large plasma fractionators.

d) The ProMetic Animal Care Unit

This operating unit will form the basis of a joint venture between ProMetic and Top Meadow. It will be responsible for the product development and commercialization of a diagnostic test using PRDT's technology to detect BSE in live cattle.

In 2005, leveraging ProMetic's core Mimetic Ligand™ technology and the expertise developed by PRDT, ProMetic agreed to form a joint venture with Top Meadow. The ultimate goal of this unit is to bring to market a BSE test for live cattle. Since live cattle diagnostic tests could be performed long before cattle enter the human food chain, the discovery of one infected animal would not then necessarily lead to the slaughter of an entire herd, generating potential savings for the meat-growing industry.

Another goal is to surpass the sensitivity of current *post-mortem* diagnostic methods. In the shorter term, the technology which concentrates prions could be licensed to manufacturers of existing *post-mortem* diagnostic tests to increase the sensitivity of current tests.

ProMetic intends to finance the development of prion diagnostic systems, as well as new systems, with government grants and new sources of financing.

3.2 Trends

a) **ProMetic BioSciences Ltd**

A great number of protein-derived and DNA-based drugs in development form the next wave of new therapies and referred to as “biopharmaceuticals”. These products are derived from a biological source and each of them poses manufacturing challenges, as the separation and purification of the targeted therapeutic proteins from their biological source, a process called “bioseparation”, is key to their commercial viability. ProMetic BioSciences Ltd develops and markets bioseparation products based on applications of its proprietary Mimetic Ligand™ technology.

b) **Therapeutics Research**

Therapeutics play an important role in ProMetic’s future development. ProMetic produces promising drug candidates generally at a lower cost than traditional large pharmaceutical companies. ProMetic has investigated 2,000 compounds of which 6 were selected as drug candidates, while other companies typically investigate between 100,000 and 1,000,000 compounds to bring one compound through clinical studies and to market. The therapeutic unit is focused on the discovery and development of proprietary drugs in the fields of cancer and autoimmune diseases. The mission of the therapeutic unit is to develop innovative, less toxic, and lower cost alternatives, such as protein mimetics, to currently marketed but expensive recombinant protein drugs. This approach represents a financial opportunity and a significant growth potential, as many such medically proven and valuable recombinant proteins are already available in the marketplace.

PBI-1402 is one of ProMetic’s most promising and advanced drug candidates. Results generated by phase I trials of PBI-1402 (which increases the number of red blood cell precursors – also called reticulocytes) are encouraging. ProMetic expects to begin in 2006 a phase Ib/II clinical trial targeting chemotherapy and/or cancer induced anemia. PBI-1402 typifies ProMetic’s approach to therapeutic development, seeking low molecular weight compounds and lower toxicity.

The therapeutics unit seeks to develop synthetic protein mimetic products. ProMetic’s objective is to replace with synthetic proteins complex and expensive recombinant proteins that are commercially important. This approach represents a financial opportunity and a significant growth potential, as many such valuable recombinant proteins are already available in the marketplace. It also provides the advantage of time and increased probability of success for ProMetic. This arises from the fact that the therapeutics unit focuses on developing protein mimetics of medically proven recombinant proteins.

c) *BioTherapeutics*

There is a growing demand and a shortage of supply for high value proteins commonly used to treat a variety of medical conditions. ProMetic's technology can be applied to the recovery of certain proteins that have established therapeutic value, but cannot be extracted effectively by current manufacturing practices, or that simply do not constitute the focus of large plasma fractionators. These proteins have the potential to receive "orphan" drug status and, if so, could be rapidly advanced to commercial status with the support of regulatory authorities and patient associations.

d) *Animal Care*

At present, cattle herd owners and government regulators are showing critical interest in technology to diagnose BSE in live cattle. Currently "mad cow" diagnosis requires brain tissue samples from dead animals. An endogenous (whole blood) infectivity study conducted by PRDT has demonstrated that the ligand technology binds abnormal prions from whole blood and concentrates them, thus facilitating their detection.

e) *Objectives and R&D*

Partnership and joint-venture agreements concluded over the past few years have enabled ProMetic to position itself as a key player in the biopharmaceutical purification market. This strategy aims at maximizing the Corporation's value and mitigates inherent development risks, provides a significant endorsement of ProMetic's technology. ProMetic's objectives for the coming year include partnering with pharmaceutical and biopharmaceutical companies to improve the manufacturing of their own therapeutics.

Further information on the timing and stage of ProMetic's research and development programs of both divisions may be found at pages 8 to 13 of the Corporation's 2005 annual report, available on SEDAR on the following website: www.sedar.com. ProMetic generally conducts research and development through its own scientific staff, though in some cases it coordinates discrete R&D tasks carried out by third parties or carries out certain research and development activities in collaboration with partners.

3.3 Mimetic Ligand™ Technology

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 ligands, such ligands developed for purification purposes also have biomedical applications and can be developed as distinct drugs. Over time, ProMetic has created its Intelligent Combinatorial Chemistry (ICC)™, which contains large quantities of ligands specific to certain classes of proteins such as monoclonal antibodies.

Particles Technology

ProMetic's 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 aspects of the Mimetic Ligands™ technology and to the production of a final proprietary product, which is then incorporated into a bioseparation process or a particular medical device.

The Purabead™ agarose beads are produced using 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 characterized raw material. The manufacturing process developed by ProMetic converts agarose into monodispersed beads to which the ProMetic's ligands are attached. Fluorinated polymers are also produced using a ProMetic proprietary process.

The choice of ligand base matrix will vary according to the specifications required for particular applications. ProMetic has developed and/or acquired methods to attach its ligands to matrices.

3.4 Commercial Applications, Products and Services

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

a) *ProMetic BioSciences Ltd*

Pursuant to its business plan, ProMetic fosters growth by providing its Mimetic Ligands™ enabling technology under license to pharmaceutical and biotechnology companies so as to enable them to develop proprietary products relying on ProMetic's technology. ProMetic BioSciences Ltd also supplies resins to which ligands are attached to bind target proteins by affinity separation.

b) *The Therapeutic Unit*

ProMetic develops in-house high value therapeutics compounds and medical applications and limits its risk exposure through partnerships with multinationals for product development, clinical trials and marketing. The Therapeutic unit does not as yet market or distribute products.

c) *The Biotherapeutics Unit*

This operating unit seeks to license the PPPS technology to plasma fractionators to enable an improved recovery yield of multiple therapeutic proteins, as well as to license other ProMetic proprietary bioseparation technology to plasma fractionators who wish to harvest single proteins more efficiently or to recover certain proteins that cannot be extracted effectively by current manufacturing practices. In conjunction with such licensing activities, the business model contemplates that ProMetic would also provide technology transfer, licensee support and process development services to such licensees. The Biotherapeutics unit is currently in discussions to license such technology and provide such ancillary services. In 2004, a license to the PPPS technology for North America was granted by ProMetic to Hemosol.

d) *The ProMetic Animal Care Unit*

ProMetic anticipates a sequential introduction of products addressing the different needs and opportunities of herd owners and government regulatory agencies. ProMetic's ultimate aim is to develop and commercialize a BSE diagnostic test for live cattle, and in

the shorter term, to provide services to manufacturers of existing post-mortem diagnostic tests in order to increase the sensitivity of their current diagnostic methods. The ProMetic Animal Care unit does not as yet market or distribute those products or services.

3.5 Competitive Conditions

ProMetic's competitive edge continues to be in: its ability to apply its technologies to a wide range of products already on the market; the ability of its technology to improve the manufacturing of these products through product yield increases and safety or cost improvements; the ability to apply its technology in many other areas such as drug discovery, proteomics, diagnostics, blood safety and to establish a solid base to drive revenue growth; and leveraging its expertise in protein mimetics and medicinal chemistry to develop and build on an impressive pipeline of therapeutic products that target unmet medical needs where standard therapies are either in limited supply or economically burdensome.

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

3.6 Raw Materials, Components

ProMetic depends on third parties for the sourcing of raw materials, components or finished products for ProMetic's various products. ProMetic believes that alternative sources of supply for such raw materials, components or finished products exist. However, any change in ProMetic's suppliers could have a significant impact on ProMetic's ability to complete certain research and development projects and, accordingly, would affect its projected commercial and financial growth. While other potential alternative suppliers of raw materials and components have been identified or are 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 or the ability of ProMetic to secure alternate sources of supply at competitive pricing.

3.7 Intellectual Property Rights

ProMetic'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 ProMetic's exclusive rights or those granted to it under license. ProMetic has filed patent applications in Canada, the United States, Europe 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 Corporation does not know whether any of ProMetic's pending patent applications will be granted or whether ProMetic will be able to develop other patentable proprietary products. Furthermore, ProMetic does not know whether its existing or future patents will provide a competitive advantage or afford protection against competitors with similar technology. In addition, the Corporation 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 ProMetic from marketing its products. Finally, competitors or potential competitors may

independently develop products as effective as those of ProMetic or invent other products based on ProMetic's patented products.

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

If third-party licenses are required, there can be no assurance that ProMetic 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 ProMetic 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 ProMetic from developing, manufacturing or selling certain products. In addition, ProMetic could incur significant costs in defending itself in patent infringement proceedings initiated against it or in bringing infringement proceedings against others.

ProMetic 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 ProMetic's patents, if issued, would be held valid or enforceable by a court of competent jurisdiction or that a court would rule that the competitor's products or technologies constitute patent infringement.

Moreover, a significant part of ProMetic's technological know-how constitutes trade secrets. ProMetic, 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 ProMetic's trade secrets, know-how or other proprietary information.

3.8 Economic Dependence

ProMetic'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 enabling technologies and therapeutic products. Under such agreements, ProMetic may receive additional funding, including milestone payments. However, there can be no assurance that it will be able to establish such partnerships on favourable terms, or that its current and future partnership arrangements will prove successful.

For instance, following the filing of Hemosol LP and Hemosol Corp's notices of intention to make proposals to their creditors, and ensuing insolvency proceedings, it is possible that ProMetic's license to Hemosol LP regarding the PPS process could be affected, renegotiated or terminated depending on the outcome of such proceedings. Their likely effect cannot as of yet be adequately assessed and the Corporation will continue to monitor the situation and, to the extent possible, will seek to participate in shaping the outcome of these proceedings to the benefit of ProMetic and its shareholders.

Also, Arriva Pharmaceuticals, Inc. is involved as a defendant in judicial proceedings in the United States that saw a jury award significant compensatory and punitive damages against Arriva Pharmaceuticals, Inc., in the aggregate amount of US\$ 78 million.

Pending the outcome of these judicial proceedings, which have not yet resulted in a final judgement, or possible appeals, it is also not possible as of yet to determine how any such final decision would affect ProMetic and Arriva-ProMetic Inc., ProMetic's joint venture with Arriva Pharmaceuticals, Inc.

Should any of ProMetic's collaborative partners be unsuccessful in developing or commercializing a ProMetic product or technology to which the partner has rights, or one of the partner's products to which ProMetic has rights, ProMetic's business could be adversely affected. Furthermore, while the Corporation believes that its current and future corporate partners, with the possible exception of Hemosol LP pending the outcome of its insolvency proceedings and Arriva Pharmaceuticals, Inc. in light of the above jury awards, 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 ProMetic products. Should one of ProMetic'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 ProMetic, as a means for developing products that treat the same diseases as those targeted by ProMetic's various programs.

3.9 Product Development

ProMetic currently has many collaboration agreements based on its technology for the improvement of established and marketed therapies by improving manufacturing process yield and purity, and by developing recombinant versions of established proteins. ProMetic also leverages its expertise in protein therapeutics and medicinal chemistry and has accumulated an impressive pipeline of therapeutic products for which the development is conducted in-house. ProMetic believes it is important to maintain a balance between in-house product development products and partnered products. Developing products internally provides greater control over the pace of development and the potential for higher commercial returns. Furthermore, it allows ProMetic to develop the necessary skill sets as it drives toward its goal of becoming a fully integrated specialty pharmaceutical company. Pursuing the commercialization phase in partnership with other firms is also important because it provides continuous external validation of ProMetic's technology and possibilities of short-term revenue from fees collected at the initiation of the partnership and milestones payments.

3.10 Research and Development

ProMetic's policy for research and development is to have readily available funds required to conduct its activities. ProMetic's strategy is to finance research activities through the formation of strategic alliances with pharmaceutical and biopharmaceutical companies for the improvement of their manufacturing capacity or process for their therapeutics and the development of second generation of recombinant therapeutic products, financings, and grants or tax credits for such purposes. During the course of the financial year ended December 31, 2005, ProMetic invested approximately \$13.3 million in research and development. Revenues were also generated via development collaboration agreements, amounting approximately to \$1.6 million during the financial year ended December 31, 2005.

3.11 Environmental Protection

ProMetic produces a certain amount of chemical waste in its R&D and manufacturing activities that is removed in accordance with 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 applicable regulatory requirements. ProMetic has invested approximately \$3 million over two years in capital expenditures at its facility on the Isle of Man in connection with environmental protection requirements. Compliance with such requirements is not expected to have a significant effect on ProMetic's competitive position or to have a significant effect in future years.

3.12 Employees

ProMetic has highly qualified employees with specialized backgrounds in the biological and chemical sciences. This is leveraged by the fact that several hundreds of scientists and managers within multinationals work on joint projects with ProMetic. This enables ProMetic to gain access to an extended workforce and knowledge base. ProMetic has also recruited experienced professionals in the area of business development, finance and accounting. On a consolidated basis as at December 31, 2005, ProMetic had 117 employees, at research and production facilities in Canada, the Isle of Man and the United Kingdom and through a marketing and project management presence in the United States, Europe and Asia.

3.13 Foreign Operations

Most of ProMetic's bioseparation and medical business is conducted on international markets and the Corporation expects this to continue. The majority of ProMetic's expenses are incurred in pounds sterling. The sale of ProMetic'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 ProMetic, 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 ProMetic'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 ProMetic to consider reducing its prices in certain currencies in order to balance the relative cost of its products. The Corporation neither holds nor issues financial instruments for commercial or hedging purposes.

3.14 Risk Factors

Investors should consider the following risk factors, which are inherent to the Corporation and affect its business, and other information contained in this Annual Information Form, before deciding to purchase securities of the Corporation. If any of the following risks occur, the business, financial condition and operating results of ProMetic could be adversely affected. As a result, the trading price of the Corporation's securities could decline and investors could lose part or all of their investment.

3.14.1 Risks related to ProMetic's business

Prior Losses

Since commencement of its research activities in 1994, the Corporation has recorded losses each year. It is expected that the Corporation will continue to experience operating losses until product sales and royalty payments generate sufficient revenues to fund its continuing operations, including research and product development. Quarterly fluctuations are also anticipated in respect of earnings, expenses and losses.

Reliance on Key Personnel

The Corporation is reliant on certain members of its management and scientific staff, and the loss of the services of one or more of these individuals could adversely affect the Corporation. The Corporation will be required to continue to implement and improve its management systems and to recruit and train qualified employees. Although the Corporation has in the past been successful in attracting and retaining skilled and experienced personnel, there can be no assurance that the Corporation will continue to do so in the future.

Patents and Proprietary Technology

The Corporation'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 Corporation's exclusive rights or those granted to it under license. The Corporation has filed patent applications in Canada, the United States, Europe 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 Corporation does not know whether any of its pending patent applications will be granted or whether the Corporation will be able to develop other patentable proprietary products. Furthermore, the Corporation does not know whether its existing or future patents will provide a competitive advantage or afford protection against competitors with similar technology. Furthermore the Corporation cannot give any assurance that such patents will not be challenged or circumvented by others using alternative technology or whether existing third-party patents will prevent the Corporation from marketing its products. In addition, competitors or potential competitors may independently develop, or have independently developed products as effective as those of the Corporation or invent or have invented other products based on the Corporation'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 Corporation, which may have an effect on the business of the Corporation. Some of these applications have been granted. Some of the processes and patents may conflict with the processes or patent applications of the Corporation, which could limit the scope of the patents that may be granted to the Corporation or even result in its patent applications being rejected.

If third-party licenses are required, there can be no assurance that the Corporation 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 Corporation 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 Corporation from developing, manufacturing or selling certain products. In addition, the Corporation could incur significant costs in defending itself in patent infringement proceedings initiated against it or in bringing infringement proceedings against others.

The Corporation 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 Corporation's patents, if issued, would be held valid or enforceable by a court of competent jurisdiction or that a court would rule that the competitor's products or technologies constitute patent infringement.

Moreover, a significant part of the Corporation's technological know-how constitutes trade secrets. The Corporation, 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 Corporation's trade secrets, know-how or other proprietary information.

Additional Funding Requirements and Access to Capital

The Corporation will require substantial additional funds for further research and development, scheduled clinical testing, regulatory approvals, establishment of pilot-scale manufacturing capabilities and the commercialization of its products. ProMetic may seek additional funding for these purposes through public or private equity or debt financing, collaborative arrangements with other biopharmaceutical companies and/or from other sources. There can be no assurance that additional funding will be available on acceptable terms to permit successful commercialization of the Corporation's products. Furthermore, the Corporation is limited in its ability to borrow funds under its present financing arrangements with its bank and there can be no assurance that it would be able to raise the ceiling of these agreements on satisfactory terms. Should the Corporation fail to obtain the necessary capital, it may be required to delay, reduce or eliminate one or more of its various research programs or seek financial support from one of its corporate partners or from third-parties who may require that the company waive significant rights regarding protection of its proprietary technologies or offer it financial support on less favourable terms than those normally acceptable to the Corporation.

Reliance on Collaborative Partners

The Corporation'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 Corporation may receive additional funding, including milestone payments. The Corporation 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 favourable 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 Corporation has rights, the Corporation's business could be adversely affected. Furthermore, while the Corporation believes that the current and

future corporate partners, with the possible exception as discussed above of Hemosol LP pending the outcome of its insolvency proceedings and Arriva Pharmaceuticals, Inc. in light of the above jury awards, 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 Corporation products. Should one of the Corporation'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 Corporation, as a means for developing products that treat the same diseases as those targeted by the Corporation's various programs.

Hazardous Materials and Environmental Matters

The Corporation's research and development processes involve the use of certain hazardous and radioactive materials. The Corporation is subject to federal, provincial, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. The Corporation believes that its safety procedures comply with such regulatory requirements; however the risk of accidental contamination or injury cannot be completely eliminated. In the event of an accident, the Corporation could be held liable for damages, which could exceed the resources of the Corporation. The Corporation does not have insurance coverage against this particular risk. Although the Corporation believes that it complies in all material respects with the applicable environmental legislation and regulations, and currently has no immediate plans for major capital expenditures in respect of environmental protection installations, there can be no assurance that the Corporation will not be required to incur significant costs to comply with regulatory requirements in the future, or that the operations, business or assets of the Corporation will not be materially adversely affected by current or future legislative or regulatory requirements.

Availability and Sources of Raw Materials

The Corporation depends on third parties for the sourcing of components for its various products. The Corporation believes that alternative sources of supply for its various raw materials exist. However, any change in the Corporation in its suppliers of components for its technology could have a significant impact on the Corporation'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 material 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 or the ability of ProMetic to secure alternate sources of supply at competitive pricing.

Foreign Currency Fluctuations

The Corporation expects that most of its revenues will be in United States dollars and pounds sterling and a significant portion of its expenses are incurred in Pounds Sterling. The Corporation does not currently have any hedging arrangements in place to mitigate against currency-related risks. Significant fluctuations in the rate of exchange could adversely affect the Corporation's financial performance. There is a risk of loss arising

from an eventual weakening of the United States dollar and a strengthening of the British pound.

3.14.2 Risks related to ProMetic's Industry

Biopharmaceutical Sector

The biopharmaceutical sector must contend with dramatic scientific and technological developments and regulatory requirements that may, within a relatively short timeframe, render the products and processes developed or planned by the Corporation obsolete.

Government Regulations

The development, production and commercialization of biopharmaceutical products is generally subject to comprehensive regulations under Health Canada's Therapeutic Products Program and other regulatory bodies in Canada and various regional, national and local regulatory bodies, including the Food and Drug Administration in the United States. No assurance can be given that the Corporation or its clients and partners will not encounter difficulties or will not incur excessive costs in obtaining the necessary approvals or permits, which could delay or prevent the commercialization and production of its products.

Distribution of the Corporation's products outside Canada and the United States is also subject to comprehensive government regulation. Regulations, specifically requirements in respect of product releases on the market and the time involved in respect of regulatory assessment and the sanctions imposed in the event of infringement vary from country to country. No assurance can be given that the Corporation will obtain the requisite approvals in the relevant countries or that it will not incur significant expense in obtaining regulatory approvals or maintaining them in effect. Failure to obtain the necessary regulatory approvals, the suspension or revocation of current approvals or any failure to comply with regulatory requirements may have a material adverse effect on the Corporation's operations, its financial situation and its operating results.

Rapid Technological Change

The Corporation operates in a sector that is subject to rapid and substantial change. There can be no assurance that products developed by others will not render the Corporation's products or technologies non-competitive or that the Corporation will be able to keep pace with technological developments. Competitors may have developed or may be in the process of developing technologies that could be the basis for competitive products. Some of these products may prove more effective and less costly than products developed by the Corporation.

Competition

Competition in the biopharmaceutical sector is extremely intense. The Corporation competes with companies that produce similar or identical biopharmaceutical products or that propose different approaches to the separation or purification of proteins. Many such companies have greater resources than the Corporation. 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 Corporation's competitiveness.

Uncertainty Regarding the Outcome of Clinical Studies

In most countries, the use and sale of therapeutic products is regulated by governmental or regulatory agencies to ensure their safety and efficacy. To obtain approval of such agencies for the use, distribution, marketing and sale of such products and to demonstrate their safety and efficacy, pre-clinical and clinical test must be carried out. There is no assurance that any such study relating to any product will provide satisfactory results. If results are not satisfactory, the Corporation could abandon its commitment to the relevant product or research program.

Potential Product Liability

The development of human therapeutic products involves an inherent risk of product liability claims and associated adverse publicity. Product liability insurance is costly, often limited in scope, and could be unavailable or only available on terms unacceptable to the Corporation. There can be no assurance that the Corporation will be able to obtain or maintain insurance on reasonable terms or to otherwise protect itself against potential product liability claims that could impede or prevent commercialization of the Corporation's future products. A product liability claim against the Corporation or the withdrawal of a product from the market could have a materially adverse effect on the Corporation's business or its financial condition.

Uncertain Market

The Corporation 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 Corporation's products.

Volatility of Share Price

Market prices for securities in general, and that of biopharmaceutical companies in particular, tend to fluctuate. Factors such as the announcement to the public or in various scientific or industry forums of technological innovations, new commercial products, patents, exclusive rights obtained by the Corporation or others, results of pre-clinical and clinical studies by the Corporation or others, a change of regulations, publications, financial results, public concerns over the risks of pharmaceutical products such as blood and plasma filtration products for the removal of pathogens or over the safety of blood collection systems, future sales of securities by the Corporation or its shareholders and many other factors could have considerable effects on the price of the Corporation's securities.

4 – DIVIDENDS

To date, the Corporation has not paid any dividends in respect of any class of shares in its capital, and it does not anticipate paying dividends in the foreseeable future. At the present time, the policy of the Board of Directors of the Corporation is to reinvest all available funds in operating activities. The Board of Directors periodically reviews this policy.

5 – DESCRIPTION OF CAPITAL STRUCTURE

The Corporation 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 Corporation 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 fifty thousand (950,000) Series B Preferred Shares.

Subordinate Voting Shares

The holders of Subordinate Voting Shares are entitled to one vote per share at all meetings of the shareholders. They are entitled to receive dividends, as may be declared from time to time by the directors of the corporation *pari passu* with the holders of Multiple Voting Shares. In the event of the voluntary (or involuntary) liquidation, dissolution, winding-up or other distribution of the assets of the Corporation, the holders of the Subordinate Voting Shares are entitled to receive the remaining property of the Corporation *pari passu* with the holders of Multiple Voting Shares, subject to the preference rights of the holders of Preferred Shares.

Multiple Voting Shares

Voting, Participation, Dividends

The holders of Multiple Voting Shares are entitled to ten votes per share at all meetings of the shareholders. They are entitled to receive dividends, as may be declared from time to time by the directors of the Corporation *pari passu* with the holders of Subordinate Voting Shares. In the event of the voluntary (or involuntary) liquidation, dissolution, winding up or other distribution of the assets of the Corporation, the holders of Subordinate Voting Shares are entitled to receive the remaining property of the Corporation *pari passu* with the holders of Subordinate Voting Shares, subject to the preference rights of the holders of Preferred Shares.

Exchange and Conversion of Multiple Voting Shares

The holders of Multiple Voting Shares may at any time require that their shares be exchanged for Subordinate Voting Shares, on the basis of one Subordinate Voting Share for each Multiple Voting Share.

Furthermore, each outstanding Multiple Voting Shares will automatically be converted into one Subordinate Voting Shares upon being sold by its holder to a third party.

The beneficial owners of at least 80% of the Multiple Voting Shares have agreed to convert their Multiple Voting Shares into Subordinate Voting Shares should the total number of shares that they hold as a group represent less than 10% of the total number of the issued and outstanding shares of the Corporation.

Take-Over Bid Protection

Should a proposal to purchase the Multiple Voting Shares constitute a “take-over bid” within the meaning of the relevant securities legislation (an “Offer”), each Subordinate Voting Share will become convertible, at the option of the holder and during the term of validity of the Offer, into one Multiple Voting Share. The right of conversion may be exercised solely for the purpose of depositing the Multiple Voting Shares in response to

the Offer, and the Corporation's registrar and transfer agent will deposit the shares so obtained in the name of the shareholder.

Preferred Shares

The directors of the Corporation may issue Preferred Shares in one or more series, each series to consist of such number of shares as determined by the directors, which may also fix the designation, rights, restrictions, conditions and limitations to be attached to the Preferred Shares of each series.

The holders of Preferred Shares do not have any voting rights for the election of directors or for any other purpose, nor are they entitled to attend meetings of the shareholders, except as to any amendment to the rights, privileges, restrictions and conditions attached to the Preferred Shares, which amendment must be approved by at least 2/3 of the votes cast at a meeting of the holders of Preferred Shares called for that purpose.

In the event of liquidation, dissolution or winding-up of the Corporation or other distribution of the assets of the Corporation, the holders of Preferred Shares are entitled to receive in preference to the holders of any other classes of shares: (i) an amount equal to the amount paid up on such shares, together with any unpaid cumulative dividends, if applicable, or declared and unpaid non-cumulative dividends in other cases and (ii) if the liquidation, dissolution or winding up or distribution is voluntary, an additional amount equal to the premium, if any, that would have been payable on the redemption of the Preferred Shares.

The Preferred Shares are redeemable or may be purchased for cancellation by the Corporation at such times and at such prices and upon such conditions as may be specified in the rights, privileges, restrictions and conditions attaching to the relevant series.

Series A Preferred Shares

The holders of Series A Preferred Shares are entitled to a cumulative dividend at the rate of 12% per year, calculated on a monthly basis for the quarterly period ending on the day immediately preceding each new calendar quarter. The Corporation may purchase Series A Preferred Shares for cancellation. The Series A Preferred Shares are convertible, at the option of the holder, into such number of Subordinate Voting Shares obtained (i) in respect of amounts paid up with respect to the Series A Preferred Shares, by dividing the amount paid up on such shares to be converted by a conversion price subject to adjustments, and (ii) in respect of the unpaid dividends accumulated thereon, by dividing the amount of unpaid dividends accumulated in respect of the shares to be converted by the weighted average price of the Subordinate Voting Shares on the Toronto Stock Exchange during the 20 trading days immediately preceding the conversion.

Series B Preferred Shares

The rights, privileges, restrictions and conditions attached to the Series B Preferred Shares are the same as those attached to the Series A Preferred Shares, except for the applicable conversion price.

6 – MARKET FOR SECURITIES

6.1 Trading Price and Volume

The Corporation's Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbol "PLI.SV".

Month	High (\$)	Low (\$)	Close (\$)	Volume Traded
2005/01	1.72	1.25	1.46	1,463,730
2005/02	1.50	1.32	1.38	1,528,680
2005/03	1.47	1.01	1.01	2,440,047
2005/04	1.17	0.95	0.95	3,956,107
2005/05	1.00	0.74	0.77	1,550,503
2005/06	0.75	0.51	0.65	9,631,294
2005/07	0.77	0.56	0.58	1,963,546
2005/08	0.62	0.49	0.49	2,433,231
2005/09	0.54	0.365	0.53	7,704,578
2005/10	0.60	0.46	0.46	3,928,884
2005/11	0.51	0.31	0.36	2,432,302
2005/12	0.47	0.32	0.38	4,410,247

6.2 Prior Sales

During 2005, the Corporation granted agent warrants to purchase up to 1,710,000 Subordinate Voting Shares at a price of \$0.575 per share for a period of one year, in connection with the Corporation's public offering of 30 million Subordinate Voting Shares in June 2005.

In late December 2005 and January 2006, the Corporation issued senior secured convertible notes in the aggregate face amount of US\$11.2 million (approximately \$13.0 million Canadian) for aggregate gross proceeds of US\$8.9 million (approximately \$10.3 million Canadian). Senior secured convertible notes may be converted into Subordinate Voting Shares at a price of US\$0.27 per share, on certain terms and conditions. The Corporation also issued to the investors warrants to purchase up to 20,507,379 Subordinate Voting Shares at a price of US\$0.30 per share, for a term of five years and agent warrants to purchase up to 3,076,107 Subordinate Voting Shares also at a price of US\$0.30 per Subordinate Voting Share for a term of five years.

7 – ESCROWED SECURITIES

To the knowledge of the Corporation, the following number of securities of the class identified below, are held in escrow:

Escrowed Securities

Designation of Class	Number of Securities held in Escrow	Percentage of Class
Multiple Voting Shares	450,000	3.45%

Such shares were placed in escrow with National Bank Trust Inc., as escrow agent, by Mr. Pierre Laurin, President and Chief Executive Officer of the Corporation, as security for a non-interest bearing loan by the Corporation in the amount of \$450,000 due on or before December 31, 2009, or on such earlier date on which Mr. Laurin is neither an employee of, nor consultant whose services are retained by, the Corporation. The above shares will be released from escrow upon repayment of the loan by Mr. Laurin, on the basis of one share per dollar repaid.

8 – DIRECTORS AND OFFICERS

8.1 Directors and Officers

The two following tables set out the names, province or state of residence of the directors and officers of the Corporation, their positions with the Corporation, their present principal occupation and, when they are directors of the Corporation, the year in which they were appointed. The present term of each director will expire immediately prior to the next annual meeting of the shareholders of the Corporation.

Directors

Name and Province or State of Residence	Position with the Corporation	Director Since	Principal occupation
Pierre Laurin Québec, Canada	Director and Chairman	1994	Chairman, President and Chief Executive Officer ProMetic
Roger Garon ^{(1) (3)} Québec, Canada	Director	1995	Chairman, Multivet Ltd (a veterinary products company)
Barry Gibson Florida, USA	Director	1994	Consultant
Claude Lemire ^{(1) (2)} Québec, Canada	Director	1997	Consultant
Hans W. Schmid, Ph.D. ⁽³⁾ Zug, Switzerland	Director	1998	Chairman of the Board, ASAT AG Applied Science & Technology (a melatonin products company)
Robert Lacroix ^{(1) (2)} Québec, Canada	Director	2000	Senior Vice-President and Chief Financial Officer, CTI Capital Inc. (an investment dealer company)

Name and Province or State of Residence	Position with the Corporation	Director Since	Principal occupation
John Bienenstock, CM, MD (Hon) FRCP, FRCPC, FRSC Ontario, Canada	Director	2000	Professor at the Faculty of Health Sciences, McMaster University
John J.R. Noble, MD, FRCPC ⁽³⁾ British Columbia, Canada	Director	2003	Radiologist
G.F. Kym Anthony ⁽²⁾ Ontario, Canada	Director	2005	President and Chief Executive Officer, Dundee Wealth Management Inc. (a brokerage firm)
Andrew J.M. Clark, PhD Herts, United Kingdom	Director	2005	Consultant

- (1) Member of the Audit Committee.
(2) Member of the Corporate Governance Committee.
(3) Member of the Compensation Committee.

During the last five (5) years, all of the above directors have held the principal occupation shown above opposite their respective names, except for:

- Mr. Kym Anthony who, prior to his present occupation, was President and Chief Operating Officer of National Bank Financial Inc., a brokerage company; and
- Mr. Andrew Clark who, prior to his present occupation, was co-founder of Rebourne Technology Investment Management Limited, a technology and biotechnology investment firm.

Officers

Name and Province or State of Residence	Position	With ProMetic Since
Pierre Laurin Québec, Canada	Chairman of the Board, President and Chief Executive Officer, ProMetic	1994
Stéphane Archambault Québec, Canada	Vice-President, Finance, ProMetic	2004
Vincent Taillefer Québec, Canada	Vice-President, Corporate Development, ProMetic	2005
Steven J. Burton Cambridge, England	Executive Vice-President and Chief Scientific Officer, ProMetic BioSciences Ltd	1998
Christopher Penney Québec, Canada	Vice-President and Chief Scientific Officer, Therapeutics, ProMetic BioSciences Inc.	2001

Name and Province or State of Residence	Position	With ProMetic Since
Lucie Morin Ontario, Canada	Vice-President, Human Resources, ProMetic	2004
Geneviève Lavertu Québec, Canada	General Counsel and Corporate Secretary, ProMetic	2004

During the last five (5) years, all of the above officers have held the position shown opposite their respective names or have occupied a management position with the same or a related entity except for: (i) Stéphane Archambault who served as Corporate Controller from May 2004 and, prior to joining ProMetic, served as Controller of DSM Biologics Ltd from November 2002 to April 2004, and Finance Director of OZ Communications Inc. from January 2001 to October 2002; (ii) Vincent Taillefer who was a consultant through his consulting company Pharmamonde Inc. from 2004 to 2005, served as Chief Financial Officer of Angiogene Inc. from 2002 to 2004, and prior to that as Senior Vice-President, Corporate Development and Corporate Secretary of Technilab Pharma Inc.; (iii) Lucie Morin who served as Director, Human Resources of ProMetic until December 31, 2004 before becoming Vice-President, Human Resources in January 2005 and, prior to joining ProMetic, served as Director, Human Resources of Nexia Biotechnologies Inc. from September 2000 to January 2004 and Director, Administrative Services & Human Resources from January 1998 to September 2000; and (iv) Geneviève Lavertu, who, prior to joining ProMetic in 2004 was a lawyer with the law firm Stikeman Elliott LP.

8.2 Security Holdings

As at March 15, 2006, the number and percentage of securities of Subordinate Voting Shares and Multiple Voting Shares of the Corporation or its subsidiaries beneficially owned, directly or indirectly, or over which control or direction is exercised, by all directors and executive officers of the Corporation as a group is:

	Number	Percentage of Class
Subordinate Voting Shares	2,371,225	2.04%
Multiple Voting Shares	13,026,375	100%

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 Corporation, has been provided by each director and executive officer or is derived from insider reports.

8.3 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as indicated below, to the knowledge of the Corporation, no director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation:

- (a) is, as at the date hereof or has been, within the 10 years before the date hereof, a director or executive officer of any company that, while that person was acting in that capacity,
 - (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
 - (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
 - (iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.

Mr. Pierre Laurin was president and director of ProMetic Pharma Inc. on September 30, 1999, when this subsidiary of the Corporation made an assignment of all of its property for the general benefit of its creditors under the *Bankruptcy and Insolvency Act* (Canada).

No director or officer of the Corporation has, within 10 years prior to the date hereof, been subject to any penalties or sanctions imposed by a court or securities regulatory authority, or has reached a settlement in that respect.

8.4 Conflicts of Interest

To the knowledge of the Corporation, no director or executive officer of the Corporation has an existing or potential material conflict of interest with the Corporation or any of its subsidiaries.

9 – LEGAL PROCEEDINGS

Monogel

On September 19, 2000, the Corporation and its subsidiary ProMetic BioSciences Inc. ("PBI") filed a claim for damages in the Superior Court of Quebec against Monogel AB ("Monogel") in the amount of \$7,726,243 (plus interests and additional indemnity as provided by law), on the ground that Monogel had not transferred to ProMetic Pharma Inc., a previous subsidiary of the Corporation, the technology that Monogel had committed to transfer in accordance with the terms of their agreement and that the technology that was transferred has never been operational, causing significant

prejudice to the Corporation and PBI. This claim is contested by Monogel, which also introduced in April 2004 a cross-demand against the Corporation and PBI, claiming as damages all profits realized from the sale of agarose beads between October 18, 1999 and October 18, 2004. This cross-demand is contested by the Corporation and PBI. Moreover, the Corporation and PBI have not made any sales of agarose beads manufactured with Monogel's technology. On August 23, 2005, Monogel attorneys filed a motion to cease to represent Monogel. This motion was granted on October 3, 2005. ProMetic awaits the filing of Monogel's appearance or the appointment of new Monogel attorneys in this matter.

Bank of Montreal

On September 30, 1999, ProMetic discontinued activities in its generic pharmaceutical business when its subsidiary ProMetic Pharma Inc. ("Pharma") made an assignment of all of its property for the general benefit of its creditors under Section 49 of the *Bankruptcy and Insolvency Act* (Canada). As a result, the Bank of Montreal (the "Bank") instituted a claim against the Corporation pursuant to a guarantee in the amount of \$1 million and subordination agreement related to loans granted by the Bank to Pharma. The action was commenced in the Superior Court of Québec on June 29, 2000 and judgment was rendered in favour of the Bank on December 16, 2004 for an aggregate amount of \$2,406,329 (plus interest and additional indemnity as provided by law). The Corporation has appealed this judgement. The Corporation presently awaits a hearing date before the Court of Appeal of Quebec.

10 – INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

One director and some senior employees are entitled to receive royalties based on the sales of certain products submitted to ProMetic before joining its team. These royalties vary between 0.1% and 0.3% of net sales or between 1% and 3% of revenues received by ProMetic. These persons also have the exclusive right to commercialise these products should ProMetic decide to stop developing and/or commercialising them, subject to mutually acceptable terms and conditions.

11 – TRANSFER AGENT AND REGISTRAR

The Corporation's transfer agent and registrar is National Bank Trust Inc. and the registers of transfers of each class of securities are located in Montréal, Québec and Toronto, Ontario.

12 – MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business or as otherwise described below, the Corporation has not entered into a contract that can reasonably be considered material to ProMetic during the financial year ended December 31, 2005 or before such year but still in effect.

Pursuant to an agency agreement dated June 10, 2005, entered into between the Corporation and its agents Paradigm Capital Inc. acting as lead agent, Sprott Securities Inc., First Associates Investments Inc. and Octagon Capital Corporation (the "Agents") in connection with the public offering of securities of the Corporation that was completed on June 17, 2005, the Corporation agreed to issue and sell a minimum of 14,000,000 and a maximum of 30,000,000 Subordinate Voting Shares and the agents agreed to use their

best effort to obtain subscriptions for the Subordinate Voting Shares pursuant to the terms and conditions of the Agency Agreement, at \$ 0.50 per share. The Corporation agreed to pay the Agents a fee of \$ 0.035 per Subordinate Voting Share and issued to the Agents warrants to purchase up to 1,710,000 Subordinate Voting Shares at an exercise price of \$0.575 per share, expiring on June 16, 2006.

In December 2005 and January 2006, the Corporation issued senior secured convertible notes in the aggregate face amount of US\$11.2 million (approximately \$13.0 million Canadian) for aggregate gross proceeds of US\$8.9 million (approximately \$10.3 million Canadian) pursuant to a Securities Purchase Agreement dated as of December 22, 2005 among the Corporation and the investors named therein. During the first eight months following the closing of such financing, only one half of the principal amount of the notes will be convertible by their respective holders into Subordinate Voting Shares at the conversion price of US\$0.27 per share, and after that period, the full outstanding principal amount of a note is convertible at the holder's option at the same conversion price, provided in each case that the holder of a note would not own more than 9.99% of outstanding Subordinate Voting Shares of the Corporation. The term of the notes is 36 months and monthly reimbursements are due for payment from the ninth month. The Corporation may repay the notes in part or in full at any time. To secure the Corporation's obligations under the notes, the Corporation and its subsidiaries ProMetic BioSciences Inc., ProMetic BioSciences (USA), Inc. and ProMetic BioSciences Ltd granted a hypothec, mortgage or other security interests on substantially all of their assets.

13 – INTERESTS OF EXPERTS

13.1 Names of Experts

The consolidated annual financial statements of the Corporation for the years ended December 31, 2004 and December 31, 2005 included in the Corporation's 2005 Annual Report have been audited by Raymond Chabot Grant Thornton LLP ("Raymond Chabot Grant Thornton").

13.2 Interests of Experts

To the knowledge of the Corporation, Raymond Chabot Grant Thornton or its partners did not hold registered or beneficial ownership, directly or indirectly, in the securities of the Corporation or its associates or affiliates representing more than one percent of their outstanding securities of any class, at the date of each of Raymond Chabot Grant Thornton auditor's reports on the Corporation's annual financial statements for the years ended December 31, 2004 and December 31, 2005, and Raymond Chabot Grant Thornton or its partners did not receive thereafter any such registered or beneficial ownership, directly or indirectly, in the securities of the Corporation or its associates or affiliates.

14 – AUDIT COMMITTEE

14.1 Audit Committee Charter

The Corporation's Audit Committee Charter is reproduced at Appendix A.

14.2 Composition

The Audit Committee is composed of three independent and financially literate directors: Mr. Claude Lemire, its Chairman, Mr. Robert Lacroix and Mr. Roger Garon.

14.3 Relevant Education and Experience

Member	Relevant Education and Experience
Mr. Roger Garon	<ul style="list-style-type: none">Mr. Garon is or has been a director of Leonides Investments Inc. (then a venture capital corporation), Graystone Corporation, an investment corporation, and trustee of Noranda Income Fund, all were or are listed on the Toronto Stock Exchange or TSX Venture Exchange.Mr. Garon also served on numerous boards of directors including those of The Edper Group Ltd (formerly Hees International Bancorp Inc.) and Brascan Corporation. Until 2002, he was a director of Brookfield Properties Ltd (Toronto Stock Exchange and New York Stock Exchange).
Mr. Robert Lacroix	<ul style="list-style-type: none">Graduate of the École des Hautes Études Commerciales of Montréal in administration and finance, as well as numerous courses in the fields of finance and securities.More than 35 years' experience in occupations directly relating to accounting, finance and securities, as financial analyst, portfolio manager, investment director, associate deputy minister of finance for financing, as well as various positions as vice-president, finance.Supervised numerous financial analysts, as well as controllers and internal auditors. As vice-president, finance, responsible for accounting and financial operations and transactions as well as working with external auditors.
Mr. Claude Lemire	<ul style="list-style-type: none">Graduate of the University of Portland, Oregon in accounting (BBA).While with the SunLife group of companies, he was financial analyst for 4 years, portfolio manager American market for 2 years and assistant treasurer.He founded and was president of Canagex Placements Ltée in 1970 and was also portfolio manager until 1998.He was a member of the audit committee of the Domco company for several years until 2003 when the company was taken private.

14.4 Audit Committee Oversight

Since January 1, 2005, all recommendations of the audit committee to nominate or compensate external auditors were adopted by the Board of Directors.

14.5 Pre-Approval Policies and Procedures

The Audit Committee has reviewed and approved non-audit services on a case-by-case basis throughout the 2005 financial year and is currently contemplating the adoption and

implementation of specific policies and procedures for the engagement of non-audit services.

15 – EXTERNAL AUDITOR SERVICES FEES

15.1 Audit Fees

Raymond Chabot Grant Thornton billed the Corporation and its subsidiaries \$80,520 and \$75,839 for professional services rendered for the audit of the Corporation's financial statements for 2004 and 2005, respectively.

15.2 Audit-Related Fees

Fees billed by Raymond Chabot Grant Thornton for certification and services related to the audit of the Corporation's financial statements were \$69,525 for 2004 and \$36,850 for 2005. These services consisted principally of accounting opinions, accounting presentation support and internal control advisory services outside the scope of the audit.

15.3 Tax Fees

Fees billed by Raymond Chabot Grant Thornton for tax compliance, advice and planning services were \$93,020 for 2004 and \$76,955 for 2005. These services consisted principally of tax planning, assistance with preparation of various tax returns, and tax advice on other related matters.

15.4 All Other Fees

Fees for other services billed by Raymond Chabot Grant Thornton were \$24,380 for 2004 and \$153,124 for 2005. These services consisted principally of management consulting services which did not involve information systems design and implementation services, work related to the prospectus for the Corporation's public offering of Subordinate Voting Shares in June 2005 and services with respect to initiatives by the Corporation to raise financing.

16 – ADDITIONAL INFORMATION

The Corporation will provide to any person, upon written request made to the Secretary of the Corporation (8168 Montview Road, Montréal, Québec H4P 2L7, telephone: (514) 341-2115):

- (a) when the securities of the Corporation are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus filed in respect of a distribution of its securities:
 - i) one copy of the Annual Information Form ("AIF") of the Corporation, 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 Corporation for its most recently completed financial year for which financial statements have been filed together with the accompanying report of the auditor and one copy of the most recent interim financial statements of the Corporation that have

been filed, if any, subsequent to the financial statements for the Corporation most recently completed financial year;

- iii) one copy of the information circular of the Corporation in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared instead 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 or the 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 that the Corporation may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Corporation.

Public documents of the Corporation can also be accessed by Internet on the SEDAR website at www.sedar.com.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities, securities authorized for issuance under equity compensation plans, if applicable, is contained in the Corporation's Management Proxy Circular for its most recent annual meeting of shareholders that involved the election of directors.

Additional financial information is provided in the Corporation's financial statements and management's discussion and analysis for its most recently completed financial year.

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Appendix A

Audit Committee Charter

I. PURPOSE

The Board of Directors of the Corporation is ultimately responsible for the stewardship of the Corporation, which means that it oversees the day-to-day management delegated to the President and Chief Executive Officer and the other officers of the Corporation. The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling this responsibility with respect to overseeing four (4) fundamental issues: (i) the Corporation's financial reporting process and internal control systems, (ii) the Corporation's process to identify and manage financial risks, (iii) the internal and external audit process; and (iv) the Corporation's communication system to provide an open avenue of communication among the external auditors, the financial and senior management, the internal auditing department (if any), and the Board of Directors.

II. GENERAL ROLE AND MANDATE

External Auditors

1. Review the independence¹ and the performance of the external auditors.
2. Recommend to the Board of Directors the appointment of the external auditors for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation or the approval of any discharge of auditors where circumstances warrant.
3. Recommend to the Board of Directors for approval the fees and other compensation to be paid to the external auditors.
4. Pre-approve non-audit services to be provided to the Corporation or its subsidiaries by the external auditors, other than non-audit services: (i) the aggregate amount of which are reasonably expected to constitute no more than 5% of the total amount of fees paid by the Corporation and its subsidiaries to the external auditor during the fiscal year in which the services are provided, and (ii) that were not recognized as non-audit services at the time of the engagement and (iii) that are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more of its members to whom authority to grant such approvals has been delegated by the Committee.
5. Oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, review the external auditors' audit plan, discuss and approve audit scope, reliance upon management and internal audit if or when applicable, and general audit approach. At the conclusion of the audit process, and before releasing the year-end earnings, discuss the results of such audit with the external auditors including the resolution of disagreements between management and the external auditor regarding financial reporting and difficulties encountered in performing the audit.

¹ Should include at least on an annual basis, the review of all significant relationships the external auditors have with the Corporation that could impair the auditors' independence. When discussing auditor independence, the Committee may wish to consider both rotating the lead audit partner or audit partner responsible for reviewing the audit after a number of years and establishing hiring policies for employees or former employees of its external auditor.

6. Discuss with the auditors the quality and not just the acceptability of the Corporation's accounting principles including all critical accounting policies and practices used, any alternate treatments of financial information that have been discussed with management, the ramification of their use and the auditor's preferred treatment, as well as any other material communications with management.
7. The external auditors report to and are accountable to the Committee and the Board of Directors as representatives of shareholders.

Internal Auditors

8. Assess with the management the need for internal audit as circumstances facing the corporation change.
9. Review and approve management's decisions related to the need for internal auditing.
10. Review the mandate, budget plan, organizational structure and qualification of the internal audit department as needed.

Financial Reporting and Risk Management

11. Consider and review with the external and internal auditors, if or when applicable, the integrity of the Corporation's financial reporting processes, both internal and external, and the adequacy of the Corporation's internal controls and management financial information systems.
12. On an annual basis, review and discuss with management and the external auditors, significant financial risks and exposures, the steps management has taken to monitor, control and report such risks and exposures, and the effectiveness of the overall process for identifying the principal financial risks affecting financial reporting.
13. Review and discuss with management and the external auditors (including the internal auditors if any) the Corporation's audited annual financial statements or any other financial statements to be audited, management discussion and analysis and all other public disclosure documents containing material financial information prior to filing or distribution. The review should include a discussion with management and the external auditors of significant issues regarding accounting principles, practices and significant management estimates and judgments.
14. Ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from its financial statements, other than the public disclosures referred to in paragraph 13 above, and periodically assess the adequacy of those procedures.
15. Review, with the Corporation's counsel, any legal or regulatory matter that could have a significant impact on the Corporation's financial statements.
16. Review and make recommendations with respect to any litigation, claim or contingency that could have a material effect upon the financial position of the Corporation and the appropriateness of the disclosure thereof in the documents reviewed by the Committee.
17. Establish procedures for:
 - (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
18. Review and make recommendation regarding insurance coverage (annually or as may be otherwise appropriate).
19. Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of present and former external auditors of the Corporation.

Other

20. Perform any other activities consistent with its responsibilities and duties, the Corporation's by-laws and governing law as the Committee or the Board of Directors deems necessary or appropriate.
21. Keep records of its activities, meetings, etc. at the office of the Corporate Secretary and report periodically to the Board of Directors on its activities and make recommendations as deemed appropriate.
22. Annually assess the effectiveness of the Committee against its general role and mandate (charter) and report the results of the assessment to the Board of Directors.
23. Approve the hiring of the Chief Financial Officer and other senior management officers whose principal duties and responsibilities relate directly to the finances of the Corporation.

The Audit Committee may:

- (a) with the approval of the Board of Directors and at the Corporation's expense engage independent counsel and other external advisors as it determines necessary to carry out its duties, in appropriate circumstances;
- (b) set and pay the compensation for any such advisors employed by the Committee; and
- (c) communicate directly with the internal and external auditors.

III. COMPOSITION

The Audit Committee shall be comprised of three (3) and not more than six (6) independent directors of the Corporation. A member of the Committee is independent if the member has no material relationship with the Corporation, within the meaning of Multilateral Instrument 52-110 *Audit Committees* as amended from time to time.

Unless a chairman is elected by the full Board of Directors, or if not present at the meeting, the members of the Audit Committee may designate a chairman by majority vote of the full Audit Committee membership.

All members of the Audit Committee shall be financially literate, that being defined as able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statement. However, a member who is not financially literate may be appointed to the Committee provided that the member becomes financially literate within a reasonable period of time following his or her appointment. At least one member should have accounting or related financial experience and the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with Canadian generally accepted accounting principles.

The members of the Audit Committee are appointed by the Board of Directors (including any vacancy).

IV. MEETINGS

The Committee shall meet at least four (4) times annually, or more frequently as circumstances dictate. The Committee may ask members of management or others to attend meetings and provide pertinent information as required. Quorum for all meetings will consist of at least two (2) members.

The Committee's Chair shall prepare an agenda in advance of each meeting in consultation with management and the other members of the Committee. External auditors may also be consulted for any item related to their responsibilities and duties.

The Committee may meet with the external auditors, in private, at least once during the year. The Committee may also communicate with management and external auditors, if deemed necessary, on a quarterly basis to review the Corporation's interim financial statements.

V. WORK PROGRAM

The Audit Committee will establish a work program in order to fix a schedule to fulfill its responsibilities pursuant to the content of this charter. The Committee will use such work program to evaluate its compliance with this charter.

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