

# Q1



## QUARTERLY REPORT FOR THE PERIOD ENDING MARCH 31, 2008



PROMETIC

# **PROMETIC LIFE SCIENCES INC.**

## **Quarterly Report**

**Three-month period ended March 31, 2008**

**This present release constitutes the quarterly report to shareholders.**

- 1. Management's Discussion and Analysis of Operating Results and Financial Position**
- 2. Consolidated Balance Sheets**
- 3. Consolidated Statements of Operations and Comprehensive Income**
- 4. Consolidated Statements of Deficit**
- 5. Consolidated Statements of Contributed Surplus**
- 6. Consolidated Statements of Cash Flows**
- 7. Notes to Consolidated Financial Statements**

## **Management's Discussion and Analysis of Operating Results and Financial Position**

The following information should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as at and for the year ended December 31, 2007 included in the Company's annual report to shareholders. Information as at March 31 2008 and for the periods ended March 31, 2008 and 2007 are unaudited.

These quarterly financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge its liabilities in the normal course of operations. Since inception, the Company has concentrated on research and development. It has had no net earnings, minimal revenues, negative operating cash flows and has financed its activities through the issuance of shares. The Company's ability to continue as a going concern is dependent on obtaining additional investment capital and achieving profitable operations.

There can be no assurance that the Company will be successful in increasing revenue or raising additional investment capital to generate sufficient cash flows to continue as a going concern. These financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenues and expenses and the balance sheet classification used if the Company were unable to continue operations in accordance with this assumption.

More financial information, including the Company's Annual Information Form, is available on SEDAR ([www.sedar.com](http://www.sedar.com)).

### ***Results of Operations***

All amounts are in Canadian dollars unless indicated otherwise.

#### ***Revenues***

Total revenues, which were only derived from the protein technology unit, for the first quarter of 2008 were \$1.8 million compared with \$3.0 million for the first quarter of 2007. Revenues for the first quarter of 2008 were mainly derived from the following:

- Hepatitis B Licence and development for Kedrion S.p.A.;
- Development work related to the Tecpar in Brazil;
- Ligand development project with large pharmaceutical companies;
- Advancement of the prion-binding ligand for a European plasma fractionator.

Historically, revenues arising from Resin supply to partners have been unevenly distributed from quarter to quarter. As the Company's technology is being adopted by various pharmaceutical companies, quarterly revenues will vary constantly. This makes revenues comparison very difficult; therefore, revenues should be analyzed and compared using longer periods.

Last year's first quarter revenues were higher compared to this quarter due to the fact that \$1.9 million of revenues related to a large-scale use of ProMetic Affinity Ligand Adsorbent project were recognized in the first quarter of 2007. We expect similar uneven distribution of revenues over the next quarters.

There were no significant revenues associated with the therapeutics unit.

## **Costs of goods sold**

The costs of goods sold for the first quarter of 2008 are in line with 2007.

## **Research and development expenses**

Research and development expenses slightly decreased to \$4.3 million for the quarter ended March 31, 2008 from \$4.5 million for the same period in 2007. The lower expenditures were mainly related to the Pathogen Removal and Diagnostic Technologies (PRDT) prion filter program.

## **Administration and marketing expenses**

Administration and marketing expenses were \$1.4 million for the first quarter ended March 31, 2008, which is similar to the first quarter ended March 31, 2007.

Related parties transaction were recorded as administrative and marketing expenses and amounted to \$0.1 million. These expenses consisted mainly of directors' fees.

## **Amortization expenses**

Amortization expenses for the quarters ended March 31, 2008 were \$0.4 million compared to \$0.5 million in 2007.

## **Net results**

The Company incurred a net loss of \$5.8 million, or \$0.02 per share (basic and diluted), for the quarter ended March 31, 2008 compared with a net loss of \$4.7 million, or \$0.02 per share (basic and diluted), for the same period in 2007. The increase in net loss was primarily due to lower revenues.

Foreign exchange loss of \$0.4 million for the first quarter of 2008 is mainly related to the variation of the Canadian dollar vis-à-vis the US dollar and the British pound sterling.

## **EBITDA by business units**

First Quarter - In millions of dollars

	Proteins Technology	Therapeutics	Corporate	Intersegments transaction	Total
Revenues	1.8	-	-	-	1.8
Cost	3.6	1.3	1.3	-	6.2
EBITDA	(1.8)	(1.3)	(1.3)	-	(4.4)

## ***Liquidity and financial position***

Current assets totalled \$6.5 million as of March 31, 2008, compared with \$8.3 million as of December 31, 2007.

Cash and cash equivalents were \$0.5 as at March 31, 2008. On April 08, 2008, the Company issued 12.6 million shares with a net proceed of \$4.7 million.

Accounts receivable were \$3.1 million as of March 31, 2008, compared with \$3.3 million as of December 31, 2007. The accounts receivable are largely made of research and development tax credit receivable and trade receivable that are attributed to the invoicing of affinity products, affinity ligand development fees and progress payments for the Tecpar program.

The net capital assets, licenses and patents totalled \$8.0 million on March 31, 2008, compared with \$8.4 million in December 31, 2007.

## ***Cash Flows***

Cash flows used in operating activities amounted to \$3.8 million for the first quarter ended March 31, 2008, compared with \$6.5 million for the same period in 2007. The decrease in cash outflows for operating activities was mainly attributed to an increase in working capital.

Cash inflows from financing activities amounted to \$1.7 million for the quarter ended March 31, 2008 compared with cash outflows of \$0.2 million for the same period in 2007. The increase is mainly caused by the issuance of 6.1 million shares from various private placements throughout the first quarter of 2008

Cash inflows from investing activities amounted to \$0.4 million for the first quarter of 2008 compared with a cash outflow of \$0.4 million for the same period in 2007.

## ***Outstanding share capital***

As at May 9, 2008, the capital stock issued and outstanding consisted of 282,508,579 common shares.

## ***Financial instruments***

### **Credit risk:**

Credit risk is the risk of financial loss to the Company if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, short-term investments and receivables. The carrying amount of the financial assets represents the maximum credit exposure.

The financial instruments that potentially expose the Company to credit risk are primarily cash and cash equivalents and trade accounts receivables.

The company places its cash and cash equivalents in titles of high quality issued by government agencies and financial institutions and diversifies its investment in order to limit its exposure to credit risk.

The Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance.

**Liquidity risk:**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the management considers securing additional funds through equity, debt or partnering transactions. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows.

Accounts payable and accrued liabilities are due within the current operating period.

**Market risk:**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and equity prices will affect the Company's income or the value of its financial instruments.

**Interest risk:**

The majority of the Company's debt is at fixed rate, there is limited exposure to interest rate risk.

**Foreign exchange risk**

Financial instruments potentially exposing the Company to foreign exchange risk consist principally of cash and cash equivalents, receivables, accounts payable and accrued liabilities and long-term debt. The Company manages the U.S foreign exchange risk by holding U.S. dollar cash receipts in U.S cash on hand to support U.S forecasted cash outflows. The Company believes that the results of operations and cash flows would be affected by a sudden change in foreign exchange rates, but that this change would not impair or enhance the Company's ability to pay its U.S and Sterling Pound denominated obligations.

**Equity risk**

The changes in the Company's equity price could impact its ability to raise additional capital.

***Risks and Uncertainties***

The information contained in the Management's Discussion and Analysis of Operating Results and Financial Position contains statements regarding future financial and operating results. It also contains forward-looking statements with regards to partnerships, joint ventures and agreements and future opportunities based on these. There are also statements related to the discovery and development of intellectual property as well as other statements about future expectations, goals and plans.

These statements should not be construed as guarantees of future performance and are subject to certain risks and uncertainties beyond ProMetic's control. These risks could cause actual results to differ materially from those expressed or implied in the Management's Discussion and Analysis of Operating Results and Financial Position. Some of the risks include: a change in general economic and/or business conditions; changes in government regulations; adverse results in drug discovery and development and pre-clinical or clinical trials. Other risks include: the ability of our development and marketing partners to deliver on contractual obligations and/or meet milestones; intellectual property issues and the timing and decisions of regulatory bodies such as HPFB(1), FDA(2) and EMEA(3) as well as changes in the competitive landscape and the continued availability of new capital to finance activities. Finally, there are risks involved in the performance of contractual obligations, the failure to meet major milestones or the failure to realize expected synergies in our major partnerships, or our ability to manage them.

This statement should not be interpreted as a warning vis-à-vis any individual risk but rather as a general disclaimer about forward-looking statements and an identification of some sources of risk.

- (1) HPFB – Health Products and Food Branch, Health Canada
- (2) FDA – Food and Drug Administration
- (3) EMEA – European Agency for the Evaluation of Medicinal Products

### ***Forward-Looking Statements***

The Management's Discussion and Analysis of Operating Results and Financial Position contains forward-looking statements about ProMetic's objectives, strategies and businesses that involve risks and uncertainties. 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. Actual events or results may differ materially from those anticipated in these forward-looking statements if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. Such risks and assumptions include, but are not limited to, the Company's ability to develop, manufacture, and successfully commercialize value-added pharmaceutical products, the availability of funds and resources to pursue R&D projects, the successful and timely completion of clinical studies, the ability of the Company to take advantage of business opportunities in the pharmaceutical industry, uncertainties related to the regulatory process and general changes in economic conditions. You will find a more detailed assessment of the risks that could cause actual events or results to materially differ from our current expectations on page 21 of the Company's Annual Information Form for the year ended December 31, 2007, under the heading "Risk Factors". As a result, we cannot guarantee that any forward-looking statement will materialize. 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, unless required by applicable securities laws and regulations.

**PROMETIC LIFE SCIENCES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands of Canadian dollars)  
(Unaudited)

	March 31, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (note 15)	\$466	\$2,163
Accounts receivable (note 4)	3,052	3,349
Inventories (note 5)	2,415	2,233
Prepaid expenses	570	578
	<b>6,503</b>	<b>8,323</b>
Investments (note 6)	2,980	2,682
Capital assets	3,109	3,425
Licenses and patents	4,917	4,957
	<b>\$17,509</b>	<b>\$19,387</b>
<b>LIABILITIES</b>		
Current liabilities		
Bank loan (note 7)	\$911	\$205
Accounts payable and accrued liabilities	6,237	4,657
Payable related to a lawsuit (note 8)	1,802	1,910
Deferred revenues	1,134	1,560
Current portion of long-term debt	3,874	3,358
	<b>13,958</b>	<b>11,690</b>
Long-term debt	2,143	3,141
Preferred shares, retractable at the holder's option	3,452	3,053
	<b>19,553</b>	<b>17,884</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (notes 9 and 15)	194,437	192,225
Contributed surplus	6,825	6,753
Deficit	(203,306)	(197,475)
	<b>(2,044)</b>	<b>1,503</b>
	<b>\$17,509</b>	<b>\$19,387</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

**PROMETIC LIFE SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
(In thousands of Canadian dollars except for per share amounts)  
(Unaudited)

	Quarter ended March 31,	
	2008	2007
<b>Revenues</b>		
Sales and contract	\$1,127	\$2,970
Licensing	631	69
	<b>1,758</b>	<b>3,039</b>
<b>Charges</b>		
Costs of good sold	546	505
Research and development expenses	4,282	4,513
Administration and marketing expenses	1,387	1,428
Loss on exchange rate	440	31
Amortization of capital assets	272	228
Amortization of license and patents	106	301
	<b>7,033</b>	<b>7,006</b>
<b>Loss before the following items</b>	<b>(5,275)</b>	<b>(3,967)</b>
Gain on disposal of capital asset	353	-
Interests and penalties related to a lawsuit (note 8)	(167)	(43)
Net interest expenses	(694)	(654)
<b>Net loss and comprehensive income</b>	<b>(\$5,783)</b>	<b>(\$4,664)</b>
Net loss per share (basic and diluted)	<b>(0.02)</b>	<b>(0.02)</b>
Weighted average number of outstanding shares (in thousands)	<b>266,223</b>	<b>234,774</b>

**For supplemental operations information, see note 12**

*The accompanying notes are an integral part of the consolidated financial statements.*

**PROMETIC LIFE SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF DEFICIT**  
(In thousands of Canadian dollars)  
(Unaudited)

	Quarter ended March 31,	
	2008	2007
<b>Deficit, beginning of the period</b>	<b>\$197,475</b>	<b>\$174,179</b>
Net Loss	5,783	4,664
Share issue expenses	48	86
<b>Deficit, end of period</b>	<b>\$203,306</b>	<b>\$178,929</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

**PROMETIC LIFE SCIENCES INC.**  
**CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS**

(In thousands of Canadian dollars)

(Unaudited)

For the quarters ended March 31, 2008 and 2007

	Stock-based compensation	Warrants	Other	Total contributed surplus
<b>CONTRIBUTED SURPLUS, AS AT DECEMBER 31, 2006</b>	\$ 400	\$ 5,486	\$ 2,136	\$ 8,022
Stock-based compensation	34	-	-	34
Exercise of options	-	-	-	-
Exercise of warrants	-	(2)	-	(2)
<b>CONTRIBUTED SURPLUS, AS AT MARCH 31, 2007</b>	\$ 434	\$ 5,484	\$ 2,136	\$ 8,054
<b>CONTRIBUTED SURPLUS, AS AT DECEMBER 31, 2007</b>	\$ 757	\$ 3,860	\$ 2,136	\$ 6,753
Stock-based compensation	72	-	-	72
Exercise of options	-	-	-	-
Exercise of warrants	-	-	-	-
<b>CONTRIBUTED SURPLUS, AS AT MARCH 31, 2008</b>	\$ 829	\$ 3,860	\$ 2,136	\$ 6,825

*The accompanying notes are an integral part of the consolidated financial statements.*

**PROMETIC LIFE SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands of Canadian dollars)  
(Unaudited)

	Quarter ended March 31,	
	2008	2007
<b>Cash flows used in operating activities</b>		
Net loss and comprehensive income	\$ (5,783)	\$ (4,664)
Adjustments to reconcile net loss to cash flows used in operating activities		
Exercise of warrants related to term notes	-	( 2)
Interests on long-term debt	-	474
Gain on disposal of capital assets	( 353)	-
Charges paid with shares	441	-
Stock-based compensation	72	34
Unrealized loss (gain) on exchange rate	314	( 73)
Amortization of capital assets	272	228
Amortization of licenses and patents	106	301
	<b>(4,930)</b>	<b>(3,702)</b>
Change in working capital items (note 13)	<b>1,094</b>	<b>(2,800)</b>
	<b>(3,836)</b>	<b>(6,502)</b>
<b>Cash flows from financing activities</b>		
Proceeds from share issues	1 771	10
Share issue expenses	(41)	(198)
Bank loan	706	-
Repayment of long-term debt	( 715)	-
	<b>1,721</b>	<b>(188)</b>
<b>Cash flows used in investing activities</b>		
Disposition of capital assets	402	-
Additions to capital assets	-	(166)
Additions to licenses and patents	-	(259)
	<b>402</b>	<b>(425)</b>
Net decrease in cash and cash equivalents	<b>(1,713)</b>	<b>(7,115)</b>
Net effect of currency exchange rate on cash and cash equivalents	17	(56)
Cash and cash equivalents, beginning of period	<b>2,163</b>	20,825
<b>Cash and cash equivalents, end of period</b>	<b>\$ 466</b>	<b>\$ 13,654</b>

**For supplemental cash flow information, see note 13**

*The accompanying notes are an integral part of the consolidated financial statements.*

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2008 and 2007

(In thousands of Canadian dollars except for number of shares)

(Unaudited)

### **1. Governing statutes, nature of operations and going concern**

ProMetic Life Sciences Inc. ("ProMetic" or the "Company"), incorporated under the Canada Business Corporations Act, is an international biopharmaceutical company engaged in the research, development, manufacturing and marketing of a variety of applications developed from its own exclusive technology platform. The Company owns proprietary technology essential for use in the large-scale purification of drugs, genomics and proteomics products as well as medical and therapeutic applications.

These financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge its liabilities in the normal course of operations. Since inception, the Company has concentrated its resources on research and development. It has had no net earnings, minimal revenues, negative operating cash flows and has financed its activities through the issuance of shares. The Company's ability to continue as a going concern is dependent on obtaining additional investment capital and the achievement of profitable operations. There can be no assurance that the Company will be successful in increasing revenue or raising additional investment capital to generate sufficient cash flows to continue as a going concern. These financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities and revenues and expenses and the balance sheet classification used if the Company were unable to continue operations in accordance with this assumption.

### **2. Basis of presentation**

The unaudited consolidated balance sheet as at March 31, 2008 and the related unaudited consolidated statements of operations and comprehensive income, deficit, contributed surplus and cash flows, for the three-month periods ended March 31, 2008 and 2007, have been prepared using accounting principles and practices consistent with those used and described in the annual financial statements with the exception of the changes in accounting policies described in note 3. The interim financial statements do not include all disclosures required for annual financial statements. Accordingly, they should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as at and for the year ended December 31, 2007 included in the Company's annual report to shareholders. Information as at March 31, 2008 and for the periods ended March 31, 2008 and 2007 are unaudited.

### **3. Change in accounting policies**

#### Going concern

On January 1, 2008, the Company adopted the new recommendations of the CICA Handbook: Going Concern – Inclusion of guidelines in Section 1400 "General Standards of financial statement presentation". It requires that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but is not limited to, twelve months from the balance sheet date. The new requirement only addresses disclosures and has no impact since the Company already complies with this new requirement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended March 31, 2008 and 2007

(In thousands of Canadian dollars except for number of shares)

(Unaudited)

### Capital disclosures

On January 1<sup>st</sup>, 2008, the Company adopted the new recommendations of the CICA Handbook: Section 1535 - Capital Disclosures. The new section establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard only addresses disclosures and has no impact on the Company's financial results. This additional disclosure has been provided in note 10.

### Inventories

On January 1<sup>st</sup>, 2008, the Company adopted the new recommendations of the CICA Handbook regarding the inventories. The new section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

The changes to this section affect the following, in particular:

- Certain costs, such as storage costs and general and administrative expenses that do not contribute to bringing the inventories to their present location and condition, are precisely excluded from the cost of inventories and expensed during the year in which they are incurred;
- The reversal of the write-down to net realization value amounts when there is a subsequent increase in the value of the inventories is now required;
- The valuation of inventory at the lower of cost and replacement cost is no longer allowed;
- The new standard also requires additional disclosures.

This change had no significant impact on the financial statements as at March 31, 2008.

### Section 3862 and 3863, Financial Instruments - Disclosures and presentation

These new sections will place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. The required disclosure has been provided in note 11.

#### **4. Accounts receivable**

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Trade	\$ 1,262	\$ 1,715
Sales taxes receivable	174	162
Tax credits receivable (note 7)	1,229	1,056
Advance to an officer, without interest	32	36
Other	355	380
	<b>\$ 3,052</b>	<b>\$ 3,349</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2008 and 2007

(In thousands of Canadian dollars except for number of shares)

(Unaudited)

**5. Inventories**

	March 31, 2008	December 31, 2007
Raw materials	\$ 369	\$ 349
Work in progress and finished goods	2,045	1,884
	<b>\$ 2,415</b>	<b>\$ 2,233</b>

**6. Investments**

	March 31, 2008	December 31, 2007
Cash subject to certain limitations	\$ 80	\$ 75
Guaranteed investment certificates, 3.5 % and 4.4 %, expiring in June 2008, pledged as security of letters of credit to suppliers expiring in November 2010 and October 2012	334	329
Convertible preferred shares of AM-Pharma Holding B.V.	306	358
Excess of interest in the joint venture PRDT over proportionate share in consolidated net assets	2,260	1,920
	<b>\$ 2,980</b>	<b>\$ 2,682</b>

**7. Bank loan**

	March 31, 2008	December 31, 2007
Bank loan for an authorized amount of \$ 915 related to research and development tax credits, secured by a hypothec for that amount on all present and futur research and development tax credit bearing interests at prime plus 2 % (7.25 % as at March 31, 2008; 8% as at December 31, 2007) and repayable upon receipt of tax credits.	\$ 911	\$ 205

**8. Payable related to a lawsuit**

On October 22, 2007, the Quebec Court of Appeal dismissed ProMetic's appeal of the judgment issued in December 2004 by the Superior Court of Quebec, in favor of the Bank of Montreal ("BMO") against ProMetic. Subsequently, ProMetic has entered into an agreement with BMO pursuant to which ProMetic shall reimburse its total obligation of \$3,500 to BMO via installments spanning into the second quarter of 2008.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended March 31, 2008 and 2007

(In thousands of Canadian dollars except for number of shares)

(Unaudited)

ProMetic shall pay the totality of the payable related to a lawsuit to BMO 10 days following the reception of a public offering superior to \$6,000.

A legal hypothec in the amount of \$2,762 (with interests and additional indemnity as provided for by law) resulting from the December 2004 judgment, was registered on December 23, 2004 in favor of Bank of Montreal and charging certain movable assets of ProMetic Life Sciences Inc. ("PLI"), including shares held by it in the share capital of all its subsidiaries, as well as in PRDT, and any sums lent to such entities by PLI.

Further, on January 29, 2008, conventional hypothecs in the amount of \$2,600 resulting from the above mentioned agreement reached with BMO were consented by each of PLI and ProMetic Biosciences inc. ("PBI") in favor of Bank of Montreal and charging certain movable assets of PLI and PBI.

ProMetic owes BMO a total of 1,802 \$ as at March 31, 2008 (1,910 \$ as at December 31, 2007).

### 9. Share capital

	March 31, 2008		December 31, 2007	
	Number	Amount	Number	Amount
Issued and fully paid				
Subordinate voting shares	269,883,579	\$ 194,887	263,821,962	\$ 192,675
Share purchase loan to an officer, without interest and due no later than 2009		(450)		(450)
Balance at end of period		\$ 194,437		\$ 192,225

#### a) Share issue

Changes in the issued and outstanding subordinate voting shares were as follows:

	Number	Amount
Balance as at December 31, 2007	263,821,962	\$ 192,225
Shares issued pursuant to:		
Exercise of warrants	-	-
Private placement	6,061,617	2,212
Public placement	-	-
Balance as at March 31, 2008	269,883,579	\$ 194,437

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2008 and 2007

(In thousands of Canadian dollars except for number of shares)

(Unaudited)

b) Stock options:

The Company has a stock option plan for its directors, officers and employees or service providers. The following table summarizes the changes in the number of stock options outstanding.

	Options	Weighted average exercise price per share
Number of options outstanding as at December 31, 2007	5,901,200	\$ 0.80
2008 Granted	-	-
Exercised	-	-
Forfeited	(4,000)	2.70
Expired	(126,000)	2.10
Number of options outstanding as at March 31, 2008	5,771,200	\$ 0.77

c) Stock-based compensation and other stock-based payments:

The Company uses the Black-Scholes option valuation model to calculate the fair value of options at the date of grant, using the following assumptions:

	March 31, 2008	December 31, 2007
Risk-free interest rate	-	4.02%
Dividend yield	-	0%
Expected volatility of share price	-	76%
Expected life	-	5 years

The estimated fair value of options granted during the year ended December 31, 2007 was \$0.29.

d) Equity draw down facility

On December 7, 2007, the Company entered into a securities purchase agreement in respect of an equity draw down facility. The facility will terminate in December 2009, and it provides the Company with access to financing of up to \$15,000 in return for the issuance of subordinate voting shares at a discount of 4 to 7 percent to market price based upon the weighted average price of the subordinate voting shares.

Under the commitment, these resources may be drawn at Company's sole discretion, with Company determining the timing, minimum dollar amount and price per share of each draw under this facility, subject to certain conditions including a market price greater than \$0.45.

ProMetic is under no obligation to draw from this Facility and will remain at all times free to enter into other financing transactions.

For the first three months of 2008, no draw down was done. As of December 31, 2007, the Company has drawn \$350.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended March 31, 2008 and 2007

(In thousands of Canadian dollars except for number of shares)

(Unaudited)

### 10. Capital disclosures

The Company's objectives in managing capital is to ensure a sufficient liquidity position to finance its research and development activities, administration and marketing expenses, working capital and overall capital expenditures, including those associated with patents and trademarks. The Company makes every effort to manage its liquidity to minimize dilution to its shareholders, when possible.

The Company has funded its activities through public offerings of common shares, equity draw down facility, loans, convertible term loan and research and development tax credits.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 2007.

### 11. Financial Instruments and financial risk management

#### a) Financial instruments:

The Company has classified its financial instruments as follows:

	March 31, 2008	December 31, 2007
<b>Financial assets</b>		
<b>Held for trading</b>		
Cash and cash equivalents and cash subject to certain limitation classified as held for trading, measured at fair value	\$ 546	\$ 2,238
<b>Loans and receivables</b>		
Accounts receivable, recorded at amortized cost	3,052	3,349
Excess of the interest in the joint venture of Pathogen Removal and Diagnostic Technologies, measured at amortized cost	<u>2,260</u>	<u>1,920</u>
	<b>5,312</b>	<b>5,269</b>
<b>Held to maturity</b>		
Guaranteed investment certificates, recorded at amortized cost	334	329
<b>Available-for-sale</b>		
Convertible preferred shares of AM-Pharma, recorded at cost	306	358
<b>Financial liabilities</b>		
<b>Other financial liabilities</b>		
Bank loan, accounts payable and accrued liabilities measured at amortized cost	\$ 8,950	\$ 6,772
Long-term debt, measured at amortized cost	6,017	6,499
Preferred shares retractable at the holder's option, measured at amortized cost	<u>3,452</u>	<u>3,053</u>
	<b>18,419</b>	<b>16,324</b>

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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(Unaudited)

The Company only recognizes as separate assets and liabilities derivatives embedded in hybrid instruments issued, acquired or substantially modified by the Company when the hybrid instruments are not recognized as held for trading and are still in effect as at March 31, 2008. Embedded derivatives that are not closely related to the host contract must be separated, classified as held-for-trading financial instruments and are therefore measured at fair value with changes in fair value recognized in consolidated earnings. The Company has not identified any embedded derivative that should be separated, other than the following:

Some of the Company's sales contracts include a foreign currency embedded derivative. In some contracts, the foreign currency in question corresponds to or is recognized as the currency of measurement of one of the parties to the contract. In these cases, it is not necessary to separate the foreign currency embedded instrument.

### **b) Fair value**

The carrying value of cash and cash equivalents, accounts receivable, guaranteed investment certificate, cash subject to certain limitations, bank loan, accounts payable and accrued liabilities equals their fair value because of the near-term maturity of these instruments.

The fair value of the investment AM-Pharma Holding B.V. was not readily determinable because it is a private company.

The fair value of the excess of the interest in the joint venture PRDT over proportionate share in consolidated net asset and preferred shares retractable at the holder's option cannot be determined because these are shares of a private joint venture company at the pre-commercial stage and because it is not possible to determine in which period these shares may be redeemed.

### **c) Financial risk management**

The Company has exposure to credit risk, liquidity risk and market risk.

The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed.

#### **a) Credit risk:**

Credit risk is the risk of financial loss to the Company if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, short-term investments and receivables. The carrying amount of the financial assets represents the maximum credit exposure.

The financial instruments that potentially expose the Company to credit risk are primarily cash and cash equivalents and trade accounts receivables.

The company places its cash and cash equivalents in titles of high quality issued by government agencies and financial institutions and diversifies its investment in order to limit its exposure to credit risk.

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The Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance.

The Trade accounts receivable include amounts from three customers which represents approximately 77 % (39 %, 23 % and 15 % respectively) of the Company's total trade accounts receivable in 2008 and three customers representing 65 % (34 % 14 % and 17 % respectively) of total trade receivable as at December 31, 2007.

The Company derives significant revenue from certain customers. In 2008 there were three customers who individually accounted for 34%, 20% and 9% of revenues respectively. In 2007, two customers represented 44% and 9 % respectively.

### b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the management considers securing additional funds through equity, debt or partnering transactions. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows.

Accounts payable and accrued liabilities are due within the current operating period.

### c) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and equity prices will affect the Company's income or the value of its financial instruments.

#### Interest risk

The majority of the Company's debt is at fixed rate, there is limited exposure to interest rate risk.

#### Foreign exchange risk

Financial instruments potentially exposing the Company to foreign exchange risk consist principally of cash and cash equivalents, receivables, accounts payable and accrued liabilities and long-term debt. The Company manages the U.S foreign exchange risk by holding U.S. dollar cash receipts in U.S cash on hand to support U.S forecasted cash outflows. The Company believes that the results of operations and cash flows would be affected by a sudden change in foreign exchange rates, but that this change would not impair or enhance the Company's ability to pay its U.S and Sterling Pound denominated obligations.

Financial assets, consisting principally of cash and cash equivalents and accounts receivable, denominated in sterling pounds totaled £254,579 as at March 31, 2008 and £405,276 as at December 31, 2007 and financial liabilities denominated in sterling pounds totaled £883,346 as at March 31, 2008 and £597,953 as at December 31, 2007.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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Financial assets, consisting principally of cash and cash equivalents and accounts receivable, denominated in United States dollars totaled US \$343,400 as at March 31, 2008 and US \$798,255 as at December 31, 2007. Financial liabilities consisting principally of accounts payable, accrued liabilities and long-term debt, denominated in United States dollars totaled US \$8,138,282 as at March 31, 2008 and US \$8,216,321 as at December 31, 2007.

Equity risk

The changes in the Company's equity price could impact its ability to raise additional capital.

**12. Information included in the consolidated statement of operations**

	<b>Three month ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Gross research and development expenses	<b>\$ 4,455</b>	\$ 4,649
Research and development tax credits	<b>173</b>	136
Interest on long term debt	<b>642</b>	785
Interest on bank loan	<b>12</b>	-
Interest income	<b>6</b>	151

**13. Additional information on the consolidated statement of cash flow**

	<b>Three-month ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
a) Change in working capital items		
Accounts receivable	<b>\$ 297</b>	\$ (274)
Inventories	<b>(182)</b>	(41)
Prepaid expenses	<b>8</b>	(218)
Accounts payable an accrued liabilities	<b>1,505</b>	(1,244)
Payable related to a lawsuit	<b>(108)</b>	43
Deferred revenues	<b>(426)</b>	(1,066)
	<b>\$ 1,094</b>	\$ (2,800)

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	<b>Three-month ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
b) Non-cash transaction		
Unpaid additions to capital assets and licenses and patents	\$ 523	\$ 169
Excess of the interest in the joint venture Pathogen Removal and Diagnostic Technologies Inc. over the proportionate share in the consolidated net assets	340	145
Preferred shares retractable at the holder's option	399	145
Unpaid share issue expenses	123	34
Unpaid interests related to the long-term debt	-	489

**14. Segmented information:**

The Company operates in two operating segments: Therapeutics and Protein Technology

a) Revenues and expenses by business segments:

**Quarter ended March 31, 2008**

	<b>Therapeutics</b>	<b>Protein Technology</b>	<b>Corporate</b>	<b>Intersegment transactions</b>	<b>Total</b>
Revenues	8	1,750	-	-	1,758
Costs of good sold	-	546	-	-	546
Research and development expenses	1,284	2,998	-	-	4,282
Administration and marketing expenses	-	33	1,354	-	1,387
Amortization of capital assets	47	209	16	-	272
Amortization of licenses and patents	29	39	-	38	106
Interest expenses	23	3	841	-	867
Interest revenues	(2)	(4)	-	-	(6)
Loss on exchange rate	-	-	440	-	440
Other revenues	(353)	-	-	-	(353)
<b>Net loss</b>	<b>1,020</b>	<b>2,074</b>	<b>2,651</b>	<b>38</b>	<b>5,783</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2008 and 2007

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(Unaudited)

**Quarter ended March 31, 2007**

	Therapeutics	Protein Technology	Corporate	Intersegment transactions	Total
Revenues	-	3,039	-	-	3,039
Costs of good sold	-	505	-	-	505
Research and development expenses	1,211	3,302	-	-	4,513
Administration and marketing expenses	-	117	1,311	-	1,428
Amortization of capital assets	50	166	12	-	228
Amortization of licenses and patents	229	34	-	38	301
Interest expenses	2	3	843	-	848
Interest revenues	(5)	(11)	(135)	-	(151)
Loss on exchange rate	-	-	31	-	31
<b>Net loss</b>	<b>1,487</b>	<b>1,077</b>	<b>2,062</b>	<b>38</b>	<b>4,664</b>

b) Revenues by geographic segments <sup>(1)</sup>

	Quarter ended March 31,	
	2008	2007
Italy	\$ 592	\$ -
United States	426	244
Austria	351	1,952
Brazil	216	-
United Kingdom	50	212
Canada	49	-
Germany	40	241
Denmark	32	-
Other Countries	3	44
Sweden	-	346
	<b>\$ 1,758</b>	<b>\$ 3,039</b>

(1) Revenues are attributed to countries based on location of customer and not on location of subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2008 and 2007

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(Unaudited)

c) Assets by business segments

	<b>March 31 2008</b>	<b>December 31 2007</b>
Therapeutics	\$ 4,274	\$ 4,077
Protein Technology	9,638	10,902
Corporate	3,598	4,408
	<b>\$ 17,509</b>	<b>\$ 19,387</b>

d) Assets by geographic segments

	<b>March 31 2008</b>	<b>December 31 2007</b>
Canada	\$ 9,101	\$ 9,673
United States	1,677	2,577
United Kingdom	6,731	7,137
	<b>\$ 17,509</b>	<b>\$ 19,387</b>

e) Capital assets and licenses and patents by business segments

	<b>March 31 2008</b>	<b>December 31 2007</b>
Therapeutics	\$ 2,374	\$ 2,475
Protein Technology	5,485	5,724
Corporate	167	183
	<b>\$ 8,026</b>	<b>\$ 8,382</b>

f) Capital assets and licenses and patents by geographic segment

	<b>March 31 2008</b>	<b>December 31 2007</b>
Canada	\$ 2,767	\$ 2,894
United States	1,202	1,229
United Kingdom	4,056	4,259
	<b>\$ 8,026</b>	<b>\$ 8,382</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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g) Acquisition of capital assets and licenses and patents by business segments

	March 31 2008	December 31 2007
Therapeutics	\$ 25	\$ 865
Protein Technology	43	699
Corporate	2	49
	\$ 70	\$ 1,613

h) Acquisition of capital assets and licenses and patents by geographic segments

	March 31 2008	December 31 2007
Canada	\$ 27	\$ 918
United States	-	169
United Kingdom	43	526
	\$ 70	\$ 1,613

**15. Subsequent events**

On April 8th, 2008, the Company closed a public offering for gross proceeds of \$5,050. 12,625,000 subordinate voting shares were issued at a price of \$0.40 per subordinate share.