



ProMetic  
Life Sciences Inc.

**Q3**

# QUARTERLY REPORT

FOR THE PERIOD ENDING  
SEPTEMBER 30, 2008



# PROMETIC LIFE SCIENCES INC.

## **A. ProMetic Press Release – November 13, 2008**

## **B. Quarterly Report**

Three-month period ended September 30, 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**



PROMETIC

**PRESS RELEASE  
FOR IMMEDIATE RELEASE**

## **PROMETIC REPORTS BUSINESS HIGHLIGHTS AND THIRD QUARTER FINANCIAL RESULTS**

- **\$10.7 M of cash receipts in Q3 2008 from sales and strategic investment**
- **\$3.3 M in revenue in Q3 2008 versus \$0.7 M in Q3 2007**
- **Significant decrease in net loss due to growing revenues, efficiencies and cost reductions**
- **Commercial use of Prion Capture technology impacting Q4 2008 revenue**

**MONTREAL, QUEBEC, CANADA - November 13, 2008 - ProMetic Life Sciences Inc. (TSX: PLI) (“ProMetic”)** today reported business highlights and financial results for the third quarter of 2008. All amounts are in Canadian dollars unless otherwise indicated.

“The third quarter of 2008 represented a turning point for ProMetic. The combination of \$3.3 M in revenue and the \$7.4 M of cash injection from the strategic deal with Abraxis BioScience, Inc. signals tangible, and more importantly, sustainable growth for the business,” commented Mr. Pierre Laurin, ProMetic’s President and Chief Executive Officer. “This will be further confirmed in Q4 2008 with revenue expected to reach new levels and providing a solid foundation for on-going growth in 2009. This expected revenue escalation is fuelled by the increasing and recurring use of our proprietary affinity products by major pharmaceutical companies, the prion capture products entering commercial phase, and by licensing and service revenues arising from strategic agreements such as the ones entered with Kedrion S.p.A., Abraxis BioScience, Inc., and Sartorius Stedim BioTech,” added Mr. Laurin.

“Given the difficult market conditions, now more than ever it is important for management to carefully control cash. We are doing so and remain confident in our ability to operate the business within existing cash reserves and by using predicted cash inflows from operations,” commented Bruce Pritchard, ProMetic’s Chief Financial Officer.

### **BUSINESS UPDATE**

#### **Protein Technologies**

- Proprietary Affinity products -
  - Strategic Agreements with Abraxis BioScience, Inc. (“Abraxis”) for the development and commercialization of four biopharmaceutical products targeting underserved medical conditions. The transaction includes:
    - Initial strategic investment in ProMetic of \$7.4 M at \$0.47 per share;
    - Revenues to be derived from three further Agreements with Abraxis:
      - a Service Agreement pursuant to which Abraxis engages ProMetic for various product development activities leading to the filing of Investigational New

Drug Applications with the Food and Drug Administration; work has commenced on the development activities for two of the four biopharmaceutical products, which will allow recognition of development service fee income this year;

- a Licensing Agreement that includes development and sales milestone payments, as well as royalties to ProMetic on net sales of the four products commercialized by Abraxis;
  - a Manufacturing Agreement whereby ProMetic would manufacture the bulk active ingredients for clinical trial requirements and upon product commercialization.
- ProMetic launched its new FAbsorbent(TM) F1P and has already received orders for this product. FAbsorbent(TM) F1P has been developed to better accommodate the needs of companies that have, in the past, relied on Protein L or traditional multi-step methods for the capture and purification of antibody fragments. FAbsorbent(TM) F1P is a unique product with broad applicability that addresses the manufacturing needs of a new generation of monoclonal antibody fragments. ProMetic will service these companies with its own sales team, thus retaining 100% of the revenues arising from product sales.
  - Technology transfer milestones have been achieved with both Blue Blood Biotech Corporation ("Blue Blood") in Taiwan and Kedrion S.p.A. in Italy.
  - ProMetic's collaboration with Sartorius Stedim BioTech ("Sartorius"), a world-leading provider of cutting-edge equipment and services for the development, quality assurance and manufacturing processes of biopharmaceutical products, has resulted in revenue from the successful technology transfer phase with respect to the Blue Blood project. Through this alliance, as well as the Wuhan Institute for Biological Products project, ProMetic is anticipating to generate annual revenues in excess of \$60 M upon the joint projects reaching a commercial status in Asia.
- Prion Capture products -
    - The incorporation of the Prion Capture technology in industrial processes is set to generate revenue in excess of \$30 M over the next five years, starting in Q4 2008. The P-Capt(R) Prion Capture filter phased-in adoption is proceeding as planned in Ireland, Scotland and in the rest of the UK, also with revenue for ProMetic in 2008.

## **Therapeutics**

- The third quarter of 2008 saw further consolidation of ProMetic's proprietary position for PBI-1402 and its analogues, as well as partnering discussions have been at the centre of the activities for this division. The Company intends to provide an update on these activities in the near future.

## **Corporate**

- The Company has discharged its obligation to the Bank of Montreal by repaying in full its debt obligation. This repayment not only removes a significant liability from the Company's balance sheet, but also releases the business from a hypothec held by the bank over the assets of the business;
- Furthermore, payments made under other loan arrangements have significantly reduced the level of long-term indebtedness on the balance sheet.

## **Third Quarter 2008 Financial Results**

The following information should be read in conjunction with the financial statements for the third quarter 2008 as well as the Management Discussion and Analysis for the same period.

Total revenues, which were only derived from the Company's Protein Technologies unit, for the third quarter of 2008 were \$3.3 million compared with \$0.7 million for the third quarter of 2007.

The Company incurred a net loss of \$3.6 million, or \$0.01 per share (basic and diluted), for the quarter ended September 30, 2008 compared with a net loss of \$7.0 million, or \$0.03 per share (basic and diluted), for the same period in 2007. The decrease in net loss is as a result of growing revenues, efficiencies and cost savings being driven in the business, the whole in line with the recent message to shareholders provided by the Company.

Management fully anticipates that, as the protein technologies business continues to extend the commercialisation of its technology, significant, sustainable revenues and cash will be generated. Details will be announced in public statements at the appropriate time.

Ultimately, the business ended the quarter with \$5.0 million in cash and cash equivalents, compared with \$2.2 million as at 31 December 2007.

ProMetic's MD&A, 2008 Third Quarter Financial Statements and Supplement have been filed on Sedar ([www.sedar.com](http://www.sedar.com)). The MD&A and Third Quarter Financial Statements are now available on its web site at [www.prometic.com](http://www.prometic.com).

### **Conference Call / Webcast Details**

ProMetic will be hosting a conference call and webcast on Friday, November 14, 2008 at 09:00 (EST) following the release of its third quarter 2008 financial results on Thursday, November 13, 2008 after close of market.

The conference call may be accessed by way of telephone or webcast. The numbers to access the conference call are (416) 644-3428 (international) and 1 (800) 814-4862 (toll free). A live audio webcast of the conference call will be available through ProMetic's website at <http://www.prometic.com/en/investors/presentations-webcasts.php>. Please connect at least five minutes prior to the conference call to ensure adequate time for any software download that may be needed to hear the webcast. A replay of the call will be available by telephone for a period of seven days as of Friday, November 14, 2008 at 12:00 (EST). The numbers to access the audio replay are (416) 640-1917 (international) and 1 (877) 289-8525 (toll free) using access code 21289053. Afterwards, the webcast may be downloaded directly from ProMetic's website.

### **About ProMetic Life Sciences Inc.**

ProMetic Life Sciences Inc. ("ProMetic") ([www.prometic.com](http://www.prometic.com)) is a biopharmaceutical company specialized in the research, development, manufacture and marketing of a variety of commercial applications derived from its proprietary Mimetic Ligand(TM) technology. This technology is used in large-scale purification of biologics and the elimination of pathogens. ProMetic is also active in therapeutic drug development with the mission to bring to market effective, innovative, lower cost, less toxic products for the treatment of hematology and cancer. Its drug discovery platform is focused on replacing complex, expensive proteins with synthetic "drug-like" protein mimetics. Headquartered in Montréal (Canada), ProMetic has R&D facilities in the U.K., the U.S. and Canada, manufacturing facilities in the U.K. and business development activities in the US, Europe, Asia and in the Middle-East.

### **Forward Looking Statements**

This press release 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, ProMetic'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 ProMetic 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 ProMetic'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.

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## **Management's Discussion and Analysis of Operating Results and Financial Position as at November 13<sup>th</sup>, 2008.**

ProMetic Life Sciences Inc. ("ProMetic") is a global biopharmaceutical company offering technologies for large-scale drug purification, drug development, proteomics and the elimination of pathogens. ProMetic is also active in therapeutic drug development with the mission of bringing to market effective, innovative, lower cost products for the treatment of hematological and nephrological disorders and cancer. Headquartered in Montreal (Canada), ProMetic has R&D facilities in the UK, the USA and Canada, manufacturing facilities in the UK and business development activities in the USA, Europe, Asia and in the Middle-East. ProMetic focuses its activities in the Therapeutics and Protein Technologies markets.

### **Significant Events**

The following events took place during the third quarter of 2008.

- ProMetic appointed Bruce Pritchard as Chief Financial Officer of the ProMetic Group;
- Strategic Agreements with Abraxis BioScience, Inc. ("Abraxis") for the development and commercialization of four biopharmaceutical products targeting underserved medical conditions. The transaction includes:
  - Initial strategic investment in ProMetic of \$7.4 M at \$0.47 per share;
  - Revenues to be derived from three further Agreements with Abraxis:
    - a Service Agreement pursuant to which Abraxis engages ProMetic for various product development activities leading to the filing of Investigational New Drug Applications with the Food and Drug Administration;
    - a Licensing Agreement that includes development and sales milestone payments, as well as royalties to ProMetic on nets sales of the four products commercialized by Abraxis;
    - a Manufacturing Agreement whereby ProMetic would manufacture the bulk active ingredients for clinical trial requirements and upon product commercialization.

### **Subsequent Events**

- On October 1<sup>st</sup>, 2008 ProMetic repaid in full the remaining sums due to Bank of Montreal ("BMO"), resulting from a lawsuit, releasing the assets of the business from hypothecs held by BMO.

### **PROMETIC IN RELATION TO THE VOLATILE ECONOMY**

ProMetic's management believes in an open and transparent communication with the shareholders of the company. In that regard, the company has made a number of public statements recently about the strength of its upcoming revenue streams and the actions being taken by Management in relation to driving efficiencies and cost savings in the business, allowing the company to extend its cash runway, and weather the current economic storm without going to the public market to raise funds for operations.

In this Management Discussion and Analysis of the Q3 2008 financial statements, the company intends taking this transparency further by adopting the recent guidance provided by the Canadian Institute of Chartered Accountants in its recent CPR alert on MD&A disclosures in volatile and uncertain times.

In the following statements, management intends to explain the impact of the market's volatility on ProMetic's performance, financial condition and future prospects, through making reference to:

- Strategy & Risk Management;
- Analysis of 3<sup>rd</sup> Quarter Financial Results, including;
  - Going Concern Assumptions
  - Liquidity
  - Critical Accounting Estimates

## **Strategy & Risk Management**

ProMetic's strategy in relation to its Protein Technologies business has always been clear: Applying ProMetic's proprietary technology to new and existing markets for large-scale drug purification, drug development, proteomics (the study of proteins), and the elimination of pathogens. The ultimate benefit that can be derived from ProMetic's Protein Technologies division is the enabling of cheaper and safer therapeutics, thus aligning ProMetic's business perfectly with current market pressures on the healthcare sector.

The manufacture of protein-based therapeutics has become a global growth industry, and the number of worldwide licencees of ProMetic's proprietary enabling technologies is continually growing as well. Accordingly, we have expanded our ability to collectively serve our current and forthcoming licencees.

This market, as yet has not been hit by the global economic crisis. The licencees of ProMetic's core technology often see its use as adding significant value to their products, differentiating them from other players in the market. This differentiation results in continued growth in demand for ProMetic technology. The bioseparations business continues to have strong revenue, which based on the volume and regular nature of enquiries from blue-chip customers, looks set to continue.

ProMetic's strategy in relation to the Therapeutics division has been to develop compounds which, ultimately, will lead to more cost-effective treatment regimes in already developed markets. ProMetic's management strongly believes that this strategy is highly relevant in the current market economy where cost pressures, above all else, impact the adoption of new drugs.

Also, in relation to the Therapeutics division, the Company is continuing its discussions with several interested parties regarding a licensing transaction for PBI-1402 and its analogues. These discussions continue despite the volatility in the market. However, management has nevertheless acted to cut the burn-rate of this division, such that only costs associated with a potential partnering will be incurred. This cost-focus will result in further strategic savings in the Therapeutics division over the coming weeks.

Across the business, management operates, or is putting in place, tools to monitor closely the financial performance, both actual and forecasted, to ensure that appropriate measures are taken to limit cash burn at this time.

## **Analysis of Third Quarter Financial Results**

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 September 30, 2008 and for the quarters and the nine-month periods ended September 30, 2008 and 2007 are unaudited.

### ***Going Concern Assumptions***

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, but growing, revenues, negative operating cash flows and has financed its activities through revenues generated from operations, the issuance of shares and through borrowings. 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 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.ca](http://www.sedar.ca)).

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

All amounts are in Canadian dollars unless indicated otherwise. Where critical accounting estimates have been made, these are outlined under the relevant section below.

#### ***Revenues***

Total revenues, which were only derived from the protein technology unit, for the third quarter of 2008 were \$3.3 million compared with \$0.7 million for the third quarter of 2007. For the first nine months of 2008, revenues were \$6.2 million compared to \$6.7 million for the same period last year. Revenues for the third quarter of 2008 were mainly derived from the following:

- Growing sales of proprietary affinity resins to an expanding customer base;
- Ligand development projects with large pharmaceutical companies;
- Advancement of the prion capture at industrial scale with Octapharma.

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 continue to vary. This makes quarterly revenue comparison very difficult; therefore, revenues should be analyzed and compared using longer periods. The third quarter of 2008 demonstrates this point with a significant increase in revenues over the same quarter in 2007, mostly all of which has come from sales of affinity resins to new customers.

The first 9 months of 2007 revenues were higher than those for the same period of 2008 due to the fact that \$4.1 million of revenues for that period related to a single large-scale use of ProMetic Affinity Ligand Adsorbent. We anticipate similar uneven distribution of revenues over the forthcoming quarters.

There were no significant revenues associated with the therapeutics unit.

Management fully anticipates that, as the protein technologies business continues to extend the commercialisation of its technology, significant, sustainable revenues and cash will be generated. Details of these will be announced in public statements at the appropriate time.

### ***Costs of goods sold***

The costs of goods sold for the third quarter of 2008 totalled 32 % of the revenues compared with 38 % in 2007. For the first nine months, it totalled 34 % of the revenues in 2008 compared with 35 % in 2007. This difference is explained by the mix of product sales and by the volumes of individual products sold within that mix.

As with all production methods, those employed by ProMetic will result in future economies of scale, and associated inherent savings in costs of goods sold.

### ***Research and development expenses***

Research and development expenses decreased to \$3.8 million for the quarter ended September 30, 2008 from \$4.6 million for the same period in 2007. The lower expenditures were mainly related to the Pathogen Removal and Diagnostic Technologies (PRDT) prion filter program, in which the level of investment in R&D has reduced as the P-Capt® filter reaches commercialisation, and to cost reductions implemented in the Therapeutics business unit.

### ***Administration and marketing expenses***

Administration and marketing expenses were \$1.1 million for the third quarter ended September 30, 2008, compared to \$1.6 million for the same period last year. For the first nine months of 2008, these expenses totalled \$3.9 million and \$4.8 million for 2007. The decrease in administration and marketing expenses is mainly due to certain non-recurring expenses being booked in the 2007 period augmented by cost reduction measures.

Related party transactions were recorded as administrative and marketing expenses and are not material for the first nine months of the year.

### ***Amortization expenses***

Amortization expenses for the quarter ended September 30, 2008 were \$0.4 million compared to \$0.6 million in 2007.

### ***Net results***

The Company incurred a net loss of \$3.6 million, or \$0.01 per share (basic and diluted), for the quarter ended September 30, 2008 compared with a net loss of \$7.0 million, or \$0.03 per share (basic and diluted), for the same period in 2007. The decrease in net loss is a result of growing revenues and efficiencies and cost savings being driven in the business, in line with the recent message to shareholders provided by the company.

For the first nine months of 2008, the net loss totalled \$15.0 million, or \$0.05 per share (basic and diluted), compared to a net loss of \$16.5 million, or \$0.07 per share (basic and diluted). The decrease in net loss is derived from efficiencies and cost savings.

## **EBITDA by business units**

Third quarter - In millions of dollars

	Proteins Technology	Therapeutics	Corporate	Intersegments transaction	Total
Revenues	3.3	-	-	-	3.3
Cost	4.0	1.0	1.0	-	6.0
EBITDA	(0.7)	(1.0)	(1.0)	-	(2.7)

## **Liquidity and financial position**

Current assets totalled \$11.3 million as of September 30, 2008, compared with \$8.3 million as of December 31, 2007.

Cash and cash equivalents were \$5.0 million as at September 30, 2008. In April, June and September of 2008, the Company issued 53.6 million shares in raising \$18.7 million.

Accounts receivable were \$3.3 million as of September 30, 2008 and 2007. The accounts receivable are largely made of research and development tax credit receivables and trade receivables that are attributed to the invoicing of revenues associated with sale of affinity resins, fees for the development of specific affinity ligands and progress payments for the Tecpar program.

The net capital assets, licenses and patents totalled \$7.6 million on September 30, 2008, compared with \$8.4 million in December 31, 2007.

Included in Liabilities is a sum of \$0.7 million relating to a lawsuit. This was repaid in full on October 1<sup>st</sup>, 2008 and the company was released from the associated hypothecs.

Management continues to manage the liquidity position, by seeking ways to convert inventory to cash through sales promotions, and is in discussion with a number of creditors regarding a review of payment terms.

## **Cash Flows**

Cash flows used in operating activities amounted to \$14.1 million for the first nine months ended September 30, 2008, compared with \$16.0 million for the same period in 2007. For the third quarter of 2008 and 2007, it totalled \$3.3 million and \$2.0 million respectively. The decrease in cash outflows for operating activities for the first nine months was mainly attributed to the efficiencies and cost savings in operations.

Cash inflows from financing activities amounted to \$6.2 million for the quarter ended September 30, 2008 compared with cash inflows of \$5.1 million for the same period in 2007.

Cash outflows from investing activities amounted to \$0.6 million for the first nine months of 2008 compared with a cash outflow of \$0.4 million for the same period in 2007.

Management have put in place detailed cash-flow forecasting tools which allow it to modulate the cash inflows and outflows of the business. In addition, management is in negotiation with a number of customers and suppliers to improve the cash-flow terms of recent transactions. By exercising prudence in the allocation of cash resources, management is confident that it can survive the current market situation.

## SUMMARY OF QUARTERLY RESULTS

The following quarterly information is presented in millions of Canadian dollars except for per share amounts:

	September 30 2008	June 30 2008	March 31 2008	December 31 2007	September 30 2007	June 30 2007	March 31 2007	December 31 2006	September 30 2006
Revenues	3.3	1.1	1.8	1.7	0.7	3.0	3.0	1.1	0.4
Net loss	3.6	5.6	5.8	5.8	7.0	4.8	4.7	9.9	7.0
Net loss per share	0.01	0.02	0.02	0.02	0.03	0.02	0.02	0.06	0.04
Weighted average number of outstanding shares	286	286	266	260	239	235	235	167	160

### ***Outstanding share capital***

As per the Canadian Generally Accepted Accounting Principles (GAAP), the investment of Abraxis had to be evaluated as at September 30, 2008 which led to an increase in share capital and the contributed surplus of \$5,2 million and \$2,2 million respectively. As at November 13, 2008, the capital stock issued and outstanding consisted of 317,401,768 common shares, 25,055,700 warrants and 14,495,452 rights to acquire shares. The number of options outstanding at the date of this report is 8,278,357.

### ***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)

	<b>September 30, 2008 (Unaudited)</b>	December 31, 2007 (Audited)
<b>ASSETS</b>		
Current assets		
Restricted cash (note 8)	\$669	\$0
Cash and cash equivalents	4 300	2 163
	<b>4 969</b>	2 163
Accounts receivable (note 4)	3 276	3 349
Inventories (note 5)	2 799	2 233
Prepaid expenses	207	578
	<b>11 250</b>	8 323
Investments (note 6)	3 252	2 682
Capital assets	2 588	3 425
Licenses and patents	5 002	4 957
	<b>\$22 092</b>	\$19 387
<b>LIABILITIES</b>		
Current liabilities		
Bank loan (note 7)	\$911	\$205
Accounts payable and accrued liabilities	4 837	4 657
Payable related to a lawsuit (note 8)	669	1 910
Deferred revenues	681	1 560
Loan from directors (bearing interests at 12 % and repayable on demand)	313	-
Current portion of long-term debt	4 409	3 358
	<b>11 819</b>	11 690
Long-term debt	21	3 141
Preferred shares, retractable at the holder's option	3 812	3 053
	<b>15 652</b>	17 884
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 9)	210 972	192 225
Contributed surplus	9 192	6 753
Deficit	(213 724)	(197 475)
	<b>6 440</b>	1 503
	<b>\$22 092</b>	\$19 387

*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 September 30,		Nine month ended September 30,	
	2008	2007	2008	2007
<b>Revenues</b>	<b>\$3 332</b>	\$654	<b>\$6 173</b>	\$6 714
<b>Charges</b>				
Costs of good sold	1 078	249	2 119	2 354
Research and development expenses	3 782	4 602	11 450	12 626
Administration and marketing expenses	1 091	1 602	3 936	4 828
(Gain) or loss on exchange rate	87	(186)	490	(516)
Amortization of capital assets	259	300	792	775
Amortization of license and patents	112	308	328	916
	<b>6 409</b>	6 875	<b>19 115</b>	20 983
<b>Loss before the following items</b>	<b>(\$3 077)</b>	(\$6 221)	<b>(\$12 941)</b>	(\$14 269)
Gain on disposal of capital asset	-	-	356	-
Interests and penalties related to a lawsuit (note 8)	(25)	(44)	(581)	(130)
Net interest expenses	(537)	(718)	(1 836)	(2 062)
<b>Net loss and comprehensive income</b>	<b>(\$3 638)</b>	(\$6 983)	<b>(\$15 002)</b>	(\$16 461)
Net loss per share (basic and diluted)	<b>(0,01)</b>	(0,03)	<b>(0,05)</b>	(0,07)
Weighted average number of outstanding shares (in thousands)	<b>286 262</b>	238 863	<b>288 778</b>	236 161

**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 September 30,		Nine month ended September 30,	
	2008	2007	2008	2007
<b>Deficit, beginning of the period</b>	<b>\$209 547</b>	\$183 743	<b>\$197 475</b>	\$174 179
Net Loss	3 638	\$6 983	15 002	16 461
Share issue expenses	539	615	1 247	701
<b>Deficit, end of period</b>	<b>\$213 724</b>	\$191 341	<b>\$213 724</b>	\$191 341

*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)

**NINE MONTH ENDED SEPTEMBER 30, 2008**

	Stock-based compensation	Warrants	Other	Total contributed surplus
<b>CONTRIBUTED SURPLUS, AT BEGINNING OF PERIOD</b>	\$ 757	\$ 3,860	\$ 2,136	\$ 6,753
Stock-based compensation	162	-	-	162
Issuance of warrants and rights	-	2,277	-	2,277
<b>CONTRIBUTED SURPLUS, AS AT SEPTEMBER 30, 2008</b>	\$ 919	\$ 6,137	\$ 2,136	\$ 9,192

**NINE MONTH ENDED SEPTEMBER 30, 2007**

	Stock-based compensation	Warrants	Other	Total contributed surplus
<b>CONTRIBUTED SURPLUS, AT BEGINNING OF PERIOD</b>	\$ 400	\$ 5,486	\$ 2,136	\$ 8,022
Stock-based compensation	247	-	-	247
Exercise of warrants	-	(1,492)	-	(1,492)
<b>CONTRIBUTED SURPLUS, AS AT SEPTEMBER 30, 2007</b>	\$ 647	\$ 3,994	\$ 2,136	\$ 6,777

**QUARTER ENDED SEPTEMBER 30, 2008**

	Stock-based compensation	Warrants	Other	Total contributed surplus
<b>CONTRIBUTED SURPLUS, AT BEGINNING OF PERIOD</b>	\$ 879	\$ 3,942	\$ 2,136	\$ 6,957
Stock-based compensation	40	-	-	40
Issuance of warrants and rights	-	2,195	-	2,195
<b>CONTRIBUTED SURPLUS, AS AT SEPTEMBER 30, 2008</b>	\$ 919	\$ 6,137	\$ 2,136	\$ 9,192

**QUARTER ENDED SEPTEMBER 30, 2007**

	Stock-based compensation	Warrants	Other	Total contributed surplus
<b>CONTRIBUTED SURPLUS, AT BEGINNING OF PERIOD</b>	\$ 631	\$ 5,486	\$ 2,136	\$ 8,253
Stock-based compensation	16	-	-	16
Exercise of warrants	-	(1,492)	-	(1,492)
<b>CONTRIBUTED SURPLUS, AS AT SEPTEMBER 30, 2007</b>	\$ 647	\$ 3,994	\$ 2,136	\$ 6,777

*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 September 30,		Nine month ended September 30,	
	2008	2007	2008	2007
<b>Cash flows used in operating activities</b>				
Net loss and comprehensive income	\$ (3 638)	\$ (6 983)	\$ (15 002)	\$ (16 461)
Adjustments to reconcile net loss to cash flows used in operating activities				
Exercise of warrants related to term notes	-	-	-	( 3)
Interests on long-term debt	-	398	-	1 058
Proceeds from share issues	-	-	-	59
Gain on disposal of capital assets	-	-	( 356)	-
Charges paid with shares	1 025	-	1 467	-
Stock-based compensation	40	16	162	247
Unrealized loss (gain) on exchange rate	190	( 18)	438	( 339)
Amortization of capital assets	259	300	792	775
Amortization of licenses and patents	112	308	328	916
	<b>(2 011)</b>	<b>(5 979)</b>	<b>(12 170)</b>	<b>(13 748)</b>
Change in working capital items (note 13)	<b>(1 260)</b>	<b>3 986</b>	<b>(1 880)</b>	<b>(2 218)</b>
	<b>(3 271)</b>	<b>(1 993)</b>	<b>(14 051)</b>	<b>(15 966)</b>
<b>Cash flows from financing activities</b>				
Proceeds from share issues	7 618	6 610	19 476	6 620
Share issue expenses	( 543)	( 515)	(1 084)	( 805)
Bank loan	-	205	706	205
Loan from directors	13	-	313	-
Repayment of long-term debt	( 917)	(1 156)	(2 434)	(1 380)
	<b>6 172</b>	<b>5 144</b>	<b>16 977</b>	<b>4 640</b>
<b>Cash flows used in investing activities</b>				
Acquisition of an investment	-	-	-	( 130)
Disposal of capital assets	59	-	461	-
Additions to capital assets	( 11)	( 252)	( 34)	( 652)
Additions to licenses and patents	( 629)	( 108)	( 697)	( 475)
	<b>( 581)</b>	<b>( 360)</b>	<b>( 269)</b>	<b>(1 257)</b>
Net increase (decrease) in cash and cash equivalents	<b>2 320</b>	<b>2 790</b>	<b>2 657</b>	<b>(12 584)</b>
Net effect of currency exchange rate on cash and cash equivalents	<b>127</b>	<b>( 403)</b>	<b>149</b>	<b>( 893)</b>
Cash and cash equivalents, beginning of period	<b>2 522</b>	<b>4 961</b>	<b>2 163</b>	<b>20 825</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 4 969</b>	<b>\$ 7 348</b>	<b>\$ 4 969</b>	<b>\$ 7 348</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**

Quarter and nine-month periods ended September 30, 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 and borrowing. 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 September 30, 2008 and the related unaudited consolidated statements of operations and comprehensive income, deficit, contributed surplus and cash flows, for the quarter and the nine-month periods ended September 30, 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 September 30, 2008 and for the quarters and the nine-month periods ended September 30, 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 on the Company's results. In addition, the Company already complies with this new requirement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarter and nine-month periods ended September 30, 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 September 30, 2008. The finished goods, work in progress and the raw materials are evaluated at the lower of cost and net realization value.

### 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**

	September 30, 2008	December 31, 2007
Trade	\$ 1,825	\$ 1,715
Sales taxes receivable	101	162
Tax credits receivable (note 7)	974	1,056
Advance to an officer, without interest	204	36
Other	172	380
	<b>\$ 3,276</b>	<b>\$ 3,349</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarter and nine-month periods ended September 30, 2008 and 2007

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

(Unaudited)

**5. Inventories**

	September 30, 2008	December 31, 2007
Raw materials	\$ 332	\$ 349
Work in progress and finished goods	2,466	1,884
	\$ 2,799	\$ 2,233

**6. Investments**

	September 30, 2008	December 31, 2007
Cash subject to certain limitations	\$ 75	\$ 75
Guaranteed investment certificates, 1.85 % and 2.25 %, expiring in June 2009, pledged as security of letters of credit to suppliers expiring in November 2010 and October 2012	338	329
Convertible preferred shares of AM-Pharma Holding B.V.	283	358
Excess of interest in the joint venture Pathogen Removal and Diagnostic Technologies (PRDT) over proportionate share in consolidated net assets	2,556	1,920
	\$ 3,252	\$ 2,682

**7. Bank loan**

	September 30, 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 future research and development tax credits bearing interest at prime plus 2 % (6.75 % as at September 30, 2008; 8% as at December 31, 2007) and repayable upon receipt of tax credits.	\$ 911	\$ 205

**8. Payable related to a lawsuit**

ProMetic owed Bank of Montreal (BMO) a total of 669 \$ as at September 30, 2008 (1,910 \$ as at December 31, 2007). Pursuant to an agreement made between the parties in September 2008, ProMetic allocated funds covering the balance due, which were deposited with BMO and used to repay the loan, in full on 1 October 2008.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarter and nine-month periods ended September 30, 2008 and 2007

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

(Unaudited)

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 encumbering 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.

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 encumbering certain movable assets of PLI and PBI.

POST BALANCE SHEET EVENT – On 1 October 2008, ProMetic repaid in full the remaining balance due to BMO. In return, BMO has released ProMetic from any obligations regarding the December 2004 judgment and from all legal and conventional hypothecs mentioned above.

### 9. Share capital

	September 30, 2008		December 31, 2007	
	Number	Amount	Number	Amount
Issued and fully paid				
Common shares	317,401,768	\$ 211,422	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		\$ 210,972		\$ 192,225

In May 2008, the Company changed the designation of the subordinate voting shares into common shares.

#### a) Share issue

Changes in the number and amount of the issued common shares were as follows:

	Number	Amount
Balance as at December 31, 2007	263,821,962	\$ 192,225
Shares issued pursuant to:		
Private placement	6,061,617	2,213
Public placement	47,518,189	16,534
Balance as at September 30, 2008	317,401,768	\$ 210,972

During the quarter, the Company issued 15,677,021 shares and 14,495,452 rights to acquire shares, to Abraxis for a total investment of 7,000,000 \$US.

#### b) Stock options:

The Company has a stock option plan for its directors, officers and employees or service providers. In May, 2008, the Board of directors approved that the maximum number of common shares reserved for

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarter and nine-month periods ended September 30, 2008 and 2007

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

(Unaudited)

issuance under the option plan increased from 6,000,000 to 15,913,317. 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	3,002,917	0.40
Forfeited	(362,760)	0.57
Expired	(263,000)	1.56
Number of options outstanding as at September 30, 2008	8,278,357	\$ 0.64

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:

	September 30, 2008	December 31, 2007
Risk-free interest rate	3.54%	4.02%
Dividend yield	0%	0%
Expected volatility of share price	77.10%	76%
Expected life	1.5 to 5 years	5 years

The estimated fair value of options granted during the period ended September 30, 2008 is \$0.20. For the year ended December 31, 2007 the fair value of options 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 common shares at a discount of 4 to 7 percent to market price based upon the weighted average price of the common 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 nine months of 2008, no draw down was done. As of December 31, 2007, the Company had drawn \$350.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarter and nine-month periods ended September 30, 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, whenever 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:

	September 30, 2008	December 31, 2007
<b>Financial assets</b>		
<b>Held for trading</b>		
Restricted cash, cash and cash equivalents and cash subject to certain limitation classified as held for trading, measured at fair value	\$ 4,375	\$ 2,238
<b>Loans and receivables</b>		
Accounts receivable, recorded at amortized cost	3,276	3,349
Excess of the interest in the joint venture of Pathogen Removal and Diagnostic Technologies, measured at amortized cost	2,556	1,920
	<u>5,831</u>	<u>5,269</u>
<b>Held to maturity</b>		
Guaranteed investment certificates, recorded at amortized cost	338	329
<b>Available-for-sale</b>		
Convertible preferred shares of AM-Pharma, recorded at cost	283	358
<b>Financial liabilities</b>		
<b>Other financial liabilities</b>		
Bank loan, accounts payable and accrued liabilities, payable related to a lawsuit, loan from directors, measured at amortized cost	\$ 6,730	\$ 6,772
Long-term debt, measured at amortized cost	4,430	6,499
Preferred shares retractable at the holder's option, measured at amortized cost	3,812	3,053
	<u>14,972</u>	<u>16,324</u>

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

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarter and nine-month periods ended September 30, 2008 and 2007

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

(Unaudited)

not recognized as held for trading and are still in effect as at September 30, 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 restricted cash, cash equivalents, accounts receivable, guaranteed investment certificate, cash subject to certain limitations, bank loan, accounts payable and accrued liabilities, payable related to a lawsuit and loan from directors, approximate 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 assets 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.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarter and nine-month periods ended September 30, 2008 and 2007

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

(Unaudited)

The reserve for doubtful accounts as at September 30, 2008 totals \$ 571. As at December 31, 2007, it amounted to \$ 294.

The Trade accounts receivable include amounts from two customers which represents approximately 39 % (21% and 18% respectively) of the Company's total trade accounts receivable as at September 30, 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 September 2008 there were three customers who individually accounted for 18%, 15% and 13% 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.

The undiscounted principal cash flows payable in respect of financial liabilities as at the balance sheet date are as follows:

	<b>As at September 30, 2008</b>				
	<b>Less than 3 months</b>	<b>3 - 6 months</b>	<b>6 months to 1 year</b>	<b>More than 1 year</b>	<b>Total</b>
Bank loan	911	-	-	-	911
Accounts payable and accrued liabilities	4,837	-	-	-	4,837
Payable related to a lawsuit	669	-	-	-	669
Loan from directors	313	-	-	-	313
Long-term debt	1,041	1,154	2,213	21	4,430
	<b>7,771</b>	<b>1,154</b>	<b>2,213</b>	<b>21</b>	<b>11,159</b>

This table only covers liabilities and obligations, and does not anticipate any of the income associated with assets or rights.

### 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarter and nine-month periods ended September 30, 2008 and 2007

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

(Unaudited)

Foreign exchange risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in the United Kingdom and in the United States and portion of its expenses are incurred in U.S dollar and in sterling pound. 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.

As at September 30, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated respectively in U.S dollar and sterling pound.

	<b>September 30</b>	<b>December 31</b>
<b>In U.S dollar</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	<b>3,512,325</b>	798,255
Accounts receivable	<b>1,376,562</b>	-
Accounts payable and accrued liabilities	<b>(1,646,615)</b>	(1,655,318)
Long term debt	<b>(4,168,281)</b>	(6,561,003)

	<b>September 30,</b>	<b>December 31</b>
<b>In sterling pound</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	<b>106,857</b>	202,178
Accounts receivable	<b>243,984</b>	203,098
Accounts payable and accrued liabilities	<b>(575,390)</b>	(597,953)

Based on the above net exposures as at September 30, 2008, and assuming that all other variables remain constant, a 10 % depreciation or appreciation of the Canadian dollar against the U.S dollar would result in a decrease or an increase of the net loss of 92 600 \$.

A 10 % depreciation or appreciation of the sterling pound would not result in a material change to the Company's loss.

The Company has not hedged its exposure to currency fluctuations.

Equity risk

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarter and nine-month periods ended September 30, 2008 and 2007

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

(Unaudited)

**12. Information included in the consolidated statement of operations and comprehensive income**

	Quarter ended September 30,		Nine-month ended September 30,	
	2008	2007	2008	2007
Gross research and development expenses	\$ 4,104	\$ 4,733	\$ 12,087	\$ 13,023
Research and development tax credits	322	131	637	397
Interest on long term debt	495	718	1,717	2,260
Interest on bank loan	15	4	44	4
Interest income	9	35	20	273

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

	Quarter ended September 30,		Nine-month ended September 30,	
	2008	2007	2008	2007
a) Change in working capital items				
Accounts receivable	\$ (158)	\$ 3,018	\$ 73	\$ (261)
Inventories	(87)	44	(566)	334
Prepaid expenses	70	130	371	(26)
Accounts payable an accrued liabilities	(266)	954	362	(933)
Payable related to a lawsuit	(176)	(44)	(1,241)	(130)
Deferred revenues	(643)	(116)	(879)	(1,202)
	\$ (1,260)	\$ 3,986	\$ (1,880)	\$ (2,218)

	Quarter ended September 30,		Nine-month ended September 30,	
	2008	2007	2008	2007
b) Non-cash transaction				
Unpaid additions to capital assets and licenses and patents	\$ (781)	\$ (137)	\$ 87	\$ 152
Excess of the interest in the joint venture Pathogen Removal and Diagnostic Technologies Inc. over the proportionate share in the consolidated net assets	200	(14)	636	232
Preferred shares retractable at the holder's option	274	(14)	759	232
Unpaid share issue expenses	78	100	279	100
Unpaid interests related to the long-term debt	-	398	-	1,058

**14. Segmented information:**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarter and nine-month periods ended September 30, 2008 and 2007

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

(Unaudited)

a) Revenues and expenses by business segments:**Nine-month period ended September 30, 2008**

	<b>Therapeutics</b>	<b>Protein Technology</b>	<b>Corporate</b>	<b>Intersegment transactions</b>	<b>Total</b>
Revenues	24	6,149	-	-	6,173
Costs of good sold	-	2,119	-	-	2,119
Research and development expenses	3,511	7,938	-	-	11,450
Administration and marketing expenses	-	258	3,678	-	3,936
Amortization of capital assets	130	618	44	-	792
Amortization of licenses and patents	96	119	-	114	328
Interest expenses including penalties related to lawsuit	66	13	2,357	-	2,436
Interest revenues	(10)	(10)	-	-	(19)
Loss on exchange rate	-	-	490	-	490
Gain on disposal of capital assets	(356)	-	-	-	(356)
<b>Net loss</b>	<b>3,414</b>	<b>4,906</b>	<b>6,568</b>	<b>114</b>	<b>15,002</b>

**Nine-month period ended September 30, 2007**

	<b>Therapeutics</b>	<b>Protein Technology</b>	<b>Corporate</b>	<b>Intersegment transactions</b>	<b>Total</b>
Revenues	-	6,714	-	-	6,714
Costs of good sold	-	2,354	-	-	2,354
Research and development expenses	4,049	8,578	-	-	12,626
Administration and marketing expenses	-	501	4,327	-	4,828
Amortization of capital assets	167	564	44	-	775
Amortization of licenses and patents	700	102	-	114	916
Interest expenses including penalties related to lawsuit	23	10	2,432	-	2,465
Interest revenues	(12)	(23)	(238)	-	(273)
Gain on exchange rate	-	-	(516)	-	(516)
<b>Net loss</b>	<b>4,927</b>	<b>5,373</b>	<b>6,047</b>	<b>114</b>	<b>16,461</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarter and nine-month periods ended September 30, 2008 and 2007

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

(Unaudited)

**Quarter ended September 30, 2008**

	Therapeutics	Protein Technology	Corporate	Intersegment transactions	Total
Revenues	9	3,323	-	-	3,332
Costs of good sold	-	1,078	-	-	1,078
Research and development expenses	971	2,811	-	-	3,782
Administration and marketing expenses	-	94	997	-	1,091
Amortization of capital assets	39	206	13	-	259
Amortization of licenses and patents	34	40	-	38	112
Interest expenses including penalties related to lawsuit	21	3	548	-	572
Interest revenues	(7)	(3)	-	-	(10)
Loss on exchange rate	-	-	87	-	87
<b>Net loss</b>	<b>1,051</b>	<b>906</b>	<b>1,646</b>	<b>38</b>	<b>3,638</b>

**Quarter ended September 30, 2007**

	Therapeutics	Protein Technology	Corporate	Intersegment transactions	Total
Revenues	-	654	-	-	654
Costs of good sold	-	249	-	-	249
Research and development expenses	1,496	3,106	-	-	4,602
Administration and marketing expenses	-	190	1,412	-	1,602
Amortization of capital assets	54	228	18	-	300
Amortization of licenses and patents	236	34	-	38	308
Interest expenses including penalties related to lawsuit	14	4	778	-	796
Interest revenues	-	(10)	(24)	-	(34)
Gain on exchange rate	-	-	(186)	-	(186)
<b>Net loss</b>	<b>1,801</b>	<b>3,145</b>	<b>1,999</b>	<b>38</b>	<b>6,983</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarter and nine-month periods ended September 30, 2008 and 2007

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

(Unaudited)

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

	Quarter ended September 30,		Nine month ended September 30,	
	2008	2007	2008	2007
United States	\$ 2,146	\$ 221	\$ 3,070	\$ 1,108
Austria	113	(136)	1,038	3,989
Italy	441	94	979	94
Brazil	391	159	616	159
United Kingdom	73	85	139	356
Canada	8	-	70	-
Denmark	36	(2)	68	92
South Korea	60	-	60	-
Germany	3	69	55	453
Taiwan	36	-	38	-
Switzerland	25	-	25	-
Sweden	-	(6)	-	280
Netherland	-	89	-	97
France	-	60	-	60
Other	-	21	15	26
	<b>\$ 3,332</b>	<b>\$ 654</b>	<b>\$ 6,173</b>	<b>\$ 6,714</b>

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

c) Assets by business segments

	September 30,	December 31
	2008	2007
Therapeutics	\$ 4,115	\$ 4,077
Protein Technology	10,373	10,902
Corporate	7,605	4,408
	<b>\$ 22,092</b>	<b>\$ 19,387</b>

d) Assets by geographic segment

	September 30,	December 31
	2008	2007
Canada	\$ 13,039	\$ 9,673
United States	1,984	2,577
United Kingdom	7,070	7,137
	<b>\$ 22,092</b>	<b>\$ 19,387</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarter and nine-month periods ended September 30, 2008 and 2007

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

(Unaudited)

e) Capital assets and licenses and patents by business segments

	<b>September 30, 2008</b>	<b>December 31 2007</b>
Therapeutics	\$ 2,401	\$ 2,475
Protein Technology	5,045	5,724
Corporate	144	183
	<b>\$ 7,590</b>	<b>\$ 8,382</b>

f) Capital assets and licenses and patents by geographic segment

	<b>September 30, 2008</b>	<b>December 31 2007</b>
Canada	\$ 2,747	\$ 2,894
United States	1,149	1,229
United Kingdom	3,694	4,259
	<b>\$ 7,590</b>	<b>\$ 8,382</b>

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

	<b>September 30, 2008</b>	<b>December 31 2007</b>
Therapeutics	\$ 206	\$ 865
Protein Technology	176	699
Corporate	6	49
	<b>\$ 388</b>	<b>\$ 1,613</b>

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

	<b>September 30, 2008</b>	<b>December 31 2007</b>
Canada	\$ 210	\$ 918
United States	2	169
United Kingdom	176	526
	<b>\$ 388</b>	<b>\$ 1,613</b>