



PROMETIC

# Q1

**QUARTERLY REPORT**

**FOR THE PERIOD ENDING**

**MARCH 31, 2010**

**PROMETIC LIFE SCIENCES INC.**

**A. ProMetic Press Release – 11 May, 2010**

**B. Quarterly Report**

Three-month period ended March 31, 2010

This present release constitutes the quarterly report to shareholders.

- a) **Management's Discussion and Analysis of Operating Results and Financial Position**
- b) **Consolidated Balance Sheets**
- c) **Consolidated Statements of Operations and Comprehensive Loss**
- d) **Consolidated Statements of Contributed Surplus**
- e) **Consolidated Statements of Accumulated Other Comprehensive Loss**
- f) **Consolidated Statements of Deficit**
- g) **Consolidated Statements of Cash Flows**
- h) **Notes to Consolidated Financial Statements**



**PRESS RELEASE  
FOR IMMEDIATE RELEASE**

## **PROMETIC REPORTS ITS FIRST QUARTER 2010 HIGHLIGHTS AND FINANCIAL RESULTS**

**MONTREAL, QUEBEC, CANADA – May 11, 2010 - ProMetic Life Sciences Inc. (TSX:PLI) (“ProMetic”)** today reports business highlights and financial results for the first quarter of 2010. All amounts are in Canadian Dollars unless otherwise indicated.

Mr. Bruce Pritchard, the Company’s Chief Financial Officer commented: “The Company’s cash position, supported by the anticipated level of business in the year, allows Management to execute on generating further value from the Company’s technology in the coming months”. Mr. Pritchard further added: “The strong cost controls implemented during 2009 will continue into 2010, in order to ensure that the cash runway is maximized, giving these commercialization strategies the best chance of success”.

### ***Highlights***

- In January 2010, ProMetic entered into a collaboration agreement with Abraxis BioScience, Inc. (“Abraxis”) to develop and commercialize various applications deriving from ProMetic's prion capture technology platform. This is a new strategic agreement in addition to the joint-development of biopharmaceuticals from our manufacturing platform technology. ProMetic finalized an equity investment of \$3 million US and a five year loan of \$10 million US with Abraxis.
- In February 2010, ProMetic announced that the project with HemCon Medical Technologies, Inc. to develop a sterile, single-use antibody capture device for the removal of isoagglutinin antibodies initiated in March 2009 met its first development milestone and moved into the second phase of development.
- In the same month, Novozymes and ProMetic entered into a strategic alliance regarding proprietary albumin purification technology based upon a synthetic-ligand affinity adsorbent developed by ProMetic's UK subsidiary, ProMetic BioSciences Ltd. The new synthetic-ligand affinity adsorbent, AlbuPure®, will be co-marketed by both companies.
- In March 2010, ProMetic announced that it had completed the first milestone of its strategic collaboration with the Wuhan Institute of Biological Products ("WIBP"), a subsidiary of China National Pharmaceutical Group Corp ("Sinopharm"), China's largest pharmaceutical company. WIBP's products will be manufactured under licence using ProMetic's proprietary protein technologies. These products will then move into clinical trials to demonstrate their bioequivalence to commercialized products in order to obtain required regulatory approval from the Chinese State Food and Drug Administration.

## **Appointments to the Board of Directors at the May 5, 2010, Annual and Special Meeting of Shareholders**

The following members were nominated to ProMetic's Board of Directors:

- Mr. G.F. Kym Anthony, Chair of DFG Investment Advisers;
- Mr. Robert Lacroix, Senior Vice-President of CTI Capital Securities Inc.;
- Mr. Pierre Laurin, President of ProMetic;
- Mrs. Louise Ménard, President of *Groupe Méfor inc.*;
- Mr. Paul Mesburis, Senior Portfolio Manager and Chief Compliance Officer, Excel Investment Counsel Inc.;
- Mrs. Nancy Orr, Consultant;
- Mrs. Louise Paradis, Senior Vice-President, Legal Affairs and Corporate, Secretary of *Banque de Développement du Canada*;
- Dr. Roger Perrault, Independent Director;
- Mr. Bruce Wendel, Vice Chairman and Chief Executive Officer of Abraxis BioScience; and
- Mr. Benjamin Wygodny, President of Angus Partnership.

Mrs. Orr and Mrs. Paradis are newly elected members to ProMetic's Board of Directors.

ProMetic would like to take this opportunity to thank outgoing member of the Board, Dr. John Bienenstock for his valuable contributions over the years.

### ***2010 Guidance provided during the Annual and Special Meeting of Shareholders***

During the Annual and Special Meeting of Shareholders, the Company's Chief Financial Officer, Mr. Bruce Pritchard, provided guidance for the first quarter, first half and full year 2010.

At that time, he explained that the revenue guidance for 2010 had been adjusted to \$20 million, as a result of the strengthening of the Canadian Dollar against both the British Pound and US Dollar. Mr. Pritchard also specifically mentioned that the revenue guidance in local currency was not being adjusted, but that the impact was only on the Canadian Dollar equivalent. Furthermore, the currency rate not only has the effect of reducing Canadian Dollar income, but would also reduce Canadian Dollar costs, so this, combined with ongoing cost controls, would allow the Company to maintain overall earnings guidance for the year.

The revenue guidance for the first half of 2010 is \$8.1 million and is consistent with the Company's plan expecting higher revenues in the second half.

## **Financial Results**

The following information should be read in conjunction with the financial statements for the first quarter ending March 31, 2010, as well as the Management's Discussion and Analysis for the same period.

Revenues for the quarter amounted to \$3.2 million. This is somewhat less than a straight 25% of the annualized revenue guidance of \$20 million given at the AGM on 5 May, 2010, however it is worth reminding readers again that the revenues of the business do not accrue in a straight line during the year, and that anticipated revenues are geared towards the latter quarters in the Company's plan. Specifically, revenue from the long-term supply agreement announced in Q3 2009 is not generated evenly throughout the period Q4 2009 to Q2 2010. The full amount of the shipments however, will be recognized by the end of the second quarter of 2010.

These revenues are associated to sales of affinity adsorbents to major pharmaceutical companies from the subsidiary in the UK as well as service fees associated with the development agreements with various licensees.

Operating costs for the quarter totaled \$5.9 million from \$5.5 million in the same quarter of the previous year. This increase was mainly attributable to cost of goods sold, as the revenue in the first quarter of 2010 was driven by product sales whereas in 2009, service revenue represented a larger proportion of turnover. Costs in all other areas were down on the same period in 2009, as a result of the continued cost-control measures in place. The only exceptions were administrative costs up slightly due to professional fees and the impact of foreign exchange losses versus a profit in the previous year.

ProMetic's MD&A and 2010 First Quarter Financial Statements have been filed on Sedar ([www.sedar.com](http://www.sedar.com)) and are available on the Company's web site at [www.prometic.com](http://www.prometic.com).

## **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™ 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 24 of ProMetic's Annual Information Form for the year ended December 31, 2009, under the heading "Risk and Uncertainties related to ProMetic's business". 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. All amounts are in Canadian dollars unless indicated otherwise.

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## MD&A

The Management's Discussion and Analysis of Operating Results and Financial Position, prepared May 11, 2010, aims at helping the reader to better understand the business of the Company and the key elements of its financial results. It explains the trends of the financial situation and the operating results of the Company for the first quarter of 2010 compared to the operating results for the first quarter of 2009.

This Management's Discussion and Analysis was prepared in accordance with Regulation 51-102 Respecting Continuous Disclosure Obligations and should be read in conjunction with the 2009 consolidated financial statements and the accompanying notes included in the annual report. These financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise indicated, all figures are expressed in Canadian dollars.

Information as at March 31, 2010 and for the periods ended March 31, 2010 and 2009 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, growing revenues which do not yet fully offset the cost base of the Company, resulting in negative operating cash flows. The Company has financed its activities through bank loans, government financial support and the issuance of debt and equity. 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)).

## Forward-Looking Statements

The information contained in 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. We have attempted to identify these statements by use of words such as "expect", "believe", "anticipate", "intend", and other words that denote future events. These forward-looking statements are subject to material risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. These risks and uncertainties include but are not limited to the Company's ability to develop, and successfully manufacture pharmaceutical products, and to obtain contracts for its products and services and commercial acceptance of advanced affinity separation technology. Additional information on risk factors can be found in the Company's Annual Information Form for the year ended December 31, 2009. Shareholders are cautioned that these statements are predictions and these actual events or results may differ materially from those anticipated in these forward-looking statements. Any forward-looking statements we may make as of the date hereof are based on assumptions that we believe to be reasonable as of this date and we undertake no obligation to update these statements as a result of future events or for any other reason, unless required by applicable securities laws and regulations.

### First Quarter 2010 in Summary:

The first quarter of 2010 was again a busy one for the business. The Company closed a significant financing with Abraxis, providing a cash runway for the foreseeable future. In the bioseparations business unit, the Company continued to make deliveries under the long-term supply agreement signed at the end of Q3 2009.

Revenues for the quarter amounted to \$3.2 million. This is somewhat less than a straight 25% of the annualized revenue guidance of \$20 million, however it is worth reminding readers again that the revenues of the business do not accrue in a straight line during the year, and that anticipated revenues are geared towards the latter quarters in the company's plan.

Operating costs for the quarter were up to \$5.9 million from \$5.5million in the same quarter of the previous year. This increase was mainly attributable to cost of goods sold, as the revenue in the first quarter of 2010 was driven by product sales whereas in 2009, service revenue represented a larger proportion of turnover. Costs in all other areas were down on the same period in 2009, as a result of the continued cost-control measures in place. The only exceptions were administrative costs up slightly due to professional fees associated with financing and corporate matters, and the impact of foreign exchange losses versus a profit in the previous year.

The continued strengthening of the Canadian Dollar against both the British Pound and the US Dollar since the year end has had an impact on the top line. Most of the Company's revenues, but only around 40% of its costs are in British pounds, so this strengthening will impact the results if it is sustained.

Specifically in the business, the Protein Technologies segment displayed strong activity with a new collaborations announced with Abraxis BioScience, Inc. for the development and commercialization of Prion capture technology and with Novozymes for the provision of technology for their "albufuse®" albumin-fusion molecules.

The P-Capt® filter, although still not adopted by the UK government, increased its profile within the parliament courtesy of a Private Members bill, and was raised at the UK Patient Safety Conference in London where Dr Robert Rohwer labeled, "vCJD as a very real and continuing threat to public health."

Following the meeting with the FDA in December 2009 and the presentations made at the Annual meeting of the American Society of Nephrology, the therapeutic business unit has expanded its activities and partnering discussions to include the treatment of fibrosis. As such the product portfolio of PBI-1402 and its analogues will be split into 2 fields, with PBI-1402 and some analogues targeting the field of anemia and oncology, and other analogues targeting the therapeutic field of fibrosis.

Analyzing the business segment performance for the quarter highlights improvements in the therapeutics division. Losses in the Protein Technologies division are up slightly on the previous year due to the lower gross profit earned in the first quarter of 2010, based on the sales mix achieved and in the Corporate division due to the exchange rate variances described above and increased administration costs relating to financing and the charges relating to a guarantee.

<b>Loss*</b>	<b>Q1 2010</b>	<b>Q1 2009</b>	<b>Change %</b>
Therapeutics	(166)	(1,013)	(83.6%)
Protein Technologies	(897)	(107)	738.3%
Corporate	(2,057)	(915)	124.8%
<b>Total Loss</b>	<b>(3,120)</b>	<b>(2,035)</b>	<b>53.3%</b>

\* in thousands of dollars

During the quarter, the Company finalized an equity investment of \$3 million US by way of issuance of 17,850,000 common shares and a five year loan of \$10 million US with Abraxis BioScience Inc. The long-term loan bears an interest rate of 5% and is reimbursable in five annual installments. Abraxis has the option to request that each annual installment be converted into ProMetic common shares at the future prevailing market price at the time of the annual installment. Such conversion might be subject to disinterested shareholder and TSX approvals. Concurrent to the financing, Abraxis now holds a total of 44,791,488 rights to acquire shares of ProMetic.

Clearly, the debt raised by the Company has had an impact on the balance sheet, increasing liabilities compared with increasing shareholder equity if the finance had been raised through the sale of common stock. However, the structure of the Abraxis investment allows for each annual repayment to be made in equity.

The debt on the balance sheet consists of loans from long-term shareholders and strategic business partners.

## First Quarter 2010 Significant Events

- ProMetic entered into a collaboration agreement with Abraxis BioScience, Inc. ("Abraxis") to develop and commercialize various applications deriving from ProMetic's prion capture technology platform (the "Agreement"). As part of the Agreement, Abraxis and ProMetic will equally share in the cost for the development of such new applications as well as the financial rewards arising from their commercialization. ProMetic also closed a financing deal with Abraxis totaling \$13 million US.
- ProMetic advised that on January 21, 2010, a bill to ensure that "the blood supply is made safe through the implementation of prion filtration" was passed at the UK's House of Lords and will now continue its Parliamentary progress in the House of Commons.
- ProMetic announced that it had entered into a strategic alliance with Novozymes regarding proprietary albumin purification technology based upon a synthetic-ligand affinity adsorbent developed by ProMetic's UK subsidiary, ProMetic BioSciences Ltd. The purification technology has been designed for the rapid and cost-effective development of Novozymes' albufuse<sup>®</sup> albumin-fusion molecules.

- Dr Robert Rohwer, Director, Molecular Neurovirology Laboratory and Associate Professor of Neurology, University of Maryland, Baltimore, U.S., speaking at the GovNet Communications' Patient Safety 2010 Conference held at the QEII Conference Centre in London, UK commented, "vCJD" remains a very real and continuing threat to public health and recent developments strongly support predictions of second and third waves of long incubation vCJD. Dr Rohwer went on to emphasize the urgency of implementing universal protective measures to arrest human to human transmission through blood transfusion and blood products.
- ProMetic announced it had completed the first milestone of its strategic collaboration with the Wuhan Institute of Biological Products ("WIBP"), a subsidiary of China National Pharmaceutical Group Corp ("Sinopharm"), China's largest pharmaceutical company. The initial technology transfer stage was successfully accomplished and ProMetic completed the training for six WIBP scientists at its Rockville facility.
- ProMetic announced that its UK subsidiary, ProMetic BioSciences Ltd ("PBL"), has successfully completed the first phase of work with HemCon Medical Technologies Inc. ("HemCon") on the development of a single-use antibody capture device for the removal of isoagglutinin antibodies from human plasma. First announced March 3, 2009, the exclusive collaboration agreement with HemCon covers the development of a new capture device, based on ProMetic's affinity adsorbent technology, for both single source and pooled plasma in combination with HemCon's Plasfusion™ Lyophilized Plasma System.

## Core Business and Strategy

### Core Business

ProMetic Life Sciences Inc. is a global biopharmaceutical business, comprised of a group of companies focused on developing technologies which bring pharmaceutical products to market that are safer, cost-effective and more convenient than those already available. ProMetic's business is organized into two distinct operating segments; Protein Technologies and Therapeutics, supported by a Head Office in Montreal, Canada.

### Business Segments

The **Protein Technologies** business segment comprises four operating subsidiaries:

- ProMetic BioSciences Ltd ("PBL"), based in the UK (Isle of Man and Cambridge);
- ProMetic BioTherapeutics Inc ("PBT"), based in Rockville, MD, USA;
- Pathogen Removal and Diagnostic Technologies Inc. ("PRDT"), a company registered in Delaware, USA, operated under the control of PBL; and
- ProMetic Manufacturing Inc. ("PMI"), based in Joliette, Quebec, Canada.

**PBL** develops ProMetic's core bioseparations technologies and products. Its proprietary affinity adsorbents and Mimetic Ligand™ purification platform are used by numerous medical and biopharmaceutical companies worldwide. PBL's technologies enable the capture of target proteins directly from source material, and provide highly efficient and cost-effective separation from other proteins and impurities delivering high yields of purified product. As a result, manufacturing clients using ProMetic's bioseparations technologies experience significant reductions in their cost of goods PBL's technology has also been incorporated into various medical device products which specifically capture and remove target molecules from biological fluids.

**PBT** develops manufacturing processes, based on PBL's affinity technology, to provide for highly efficient extraction and purification of therapeutic proteins from human plasma. ProMetic's PPPS™ multi-product sequential purification process, originally developed in collaboration with

ARC, employs powerful affinity separation materials in a multi-step process to extract and purify commercially important plasma proteins in high yields.

**PRDT** develops the prion capture technology platform that originated from ProMetic's collaboration with ARC. PRDT's technology forms the basis of the revolutionary P-Capt® filter, a prion reduction device developed with ProMetic's commercialization partner MacoPharma to increase the safety of red cell concentrate. P-Capt® has received CE mark approval in Europe, and provides national blood agencies with the means of significantly reducing the risk of vCJD transmission through blood transfusion. This is particularly relevant since there is no commercially available diagnostic test for detection of the blood-borne form of the vCJD agent responsible for this fatal brain disease. Additionally, PRDT technology has been incorporated by Octapharma AG ("Octapharma") into its manufacturing process for OctaplasLG® to further improve the prion safety margin for this plasma product. OctaplasLG® has obtained regulatory approval in Germany. PRDT's platform technology has demonstrated its potential for additional uses in the purification of blood derived products. Upwards of forty million units of blood are collected in the world annually, affording ProMetic and its partners' enormous market opportunities.

**PMI** manufactures the raw agarose beads (Purabead™) that serves as a platform for a large number of PBL's affinity adsorbents.

The Second business segment is **Therapeutics** which comprises of one operating subsidiary:

- ProMetic BioSciences Inc ("PBI"), based in Laval, Quebec, Canada

**PBI** is a small-molecule drug discovery business, with a strong pipeline of products. PBI scientists are focused in developing orally active drugs that can emulate the activity of proven biologics, and provide competitive advantages including improved pharmaco-economics and safety profile. The lead candidate, PBI-1402 has demonstrated positive clinical data in patients with anemia induced by chemotherapy. New drug candidates and analogues to PBI-1402 have also demonstrated the following key benefits:

- PBI-1402 and analogues are orally active, whereas most other drugs treating anemia are injectables.
- PBI-1402 and analogues are affordable low molecular weight synthetic candidate drugs, relative to costly recombinant proteins, such as ESAs.
- PBI-1402 and analogues have a distinct mechanism of action from EPO, as it does not bind to the same cell surface receptor as EPO. It therefore provides great promise of serving as a stand-alone therapeutic in the treatment of patients with anemia.
- PBI-1402 demonstrates anticancer activity in multiple pre-clinical models, which could make it a drug of choice for the treatment of anemia in cancer patients (Cancer Related Anemia ("CRA"), Chemotherapy Induced Anemia ("CIA")).
- PBI-1402 and analogues demonstrate anti-fibrotic activity which supports the potential use for nephroprotection in patients with chronic kidney disease and patients undergoing different drug therapies typically toxic to the kidney and other vital organs.

The initial indication targeted by PBI-1402 is anemia in cancer patients undergoing chemotherapy. Upwards of two thirds of cancer patients treated with chemotherapy develop anemia. This represents an estimated 1 million patients annually in the USA alone.

Since the publication of the FDA briefing document, the Oncology Drugs Advisory Committee in March 13 2008, treatment of choice for these patients has been RBC transfusion and represent an unmet medical need.

The encouraging positive results from the CIA clinical trial and the anticancer effects reported in animal models suggest that PBI-1402 is well suited for the treatment of anemia in oncology,

resulting in the PBI-1402 clinical platform being extended to patients suffering from cancer-related anemia.

Moreover, approximately twenty million patients in the U.S. alone are diagnosed with chronic kidney diseases ("CKD"). Patients diagnosed at severe CKD stages (3 and 4) often develop anemia before they require hemodialysis. CKD patients still at the pre-dialysis stage could greatly benefit from an orally administered drug as a treatment for their anemia. Other experiments in animal models simulating chronic renal failure in humans or acute renal toxicity induced by toxic drugs such as some antibiotics and chemotherapeutic agents have demonstrated the ability of PBI-1402 and new analogues to correct anemia. What drew the most interest from the presentations at the American Society of Nephrology annual meeting last Fall, was evidence that PBI-1402 reduced significantly the fibrosis in the kidney, the underlying cause that ultimately lead to the loss in the kidney function.

These results indicate additional potential for PBI-1402 and new analogues that are not related to anemia and offer alternative potential avenues for a regulatory pathway.

PBI has several other compounds with *in vivo* proof of concept validation in its library at differing stages of development. These represent a complete, well defined platform with the ability to produce high-value drugs. This will allow ProMetic to address unmet medical needs and extremely complex medical conditions associated with certain diseases, for which the market potential is immense. At the present time, no significant research and development activity is being undertaken on these other compounds.

## Business Strategy

ProMetic's strategy in relation to its **Protein Technologies** business segment has always been clear: applying ProMetic's proprietary technologies 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 unit is the enabling of our partners to manufacture more affordable and safer therapeutics, thus aligning ProMetic's business perfectly with current market pressures on the healthcare sector.

**PBL's** bioseparations business is being expanded into a profitable, cash-generative business through the securing of long-term supply agreements with major pharmaceutical and biotech companies. The profits and therefore excess cash generated by this business unit will be used in the short-term to partly finance the losses of ProMetic's other business segments.

The strategy in relation to **PBT** is to establish key relationships with biopharmaceutical companies to co-develop plasma derived therapeutics relying on PBT's proven high yield manufacturing process. Typically through these partnerships, the therapeutics developed are chosen to address totally unmet medical needs or target very large and established markets but with a significant safety and cost leadership advantage.

**PRDT's** unique prion reduction technology has already been commercialized through a long-term supply agreement with Octapharma, who have incorporated the technology into the manufacturing process of their OctaplasLG® product. The strategy is to expand the commercialization of the PRDT technology into use in RBC concentrate by the sale of the P-Capt® prion filter. Thereafter, the Company will focus on applying PRDT technology to other commercial applications.

On September 23, 2009, the Company acquired ARC's 51% interest in the common stock of PRDT bringing its current ownership at 77% of the common shares. In return, the Company paid a cash amount of \$US 5,100 and will pay tapering royalties based on the revenues generated by PRDT from specified technologies over the remaining lives of the patents. PRDT is included in the Protein Technologies business segment.

The following Strengths, Weaknesses, Opportunities, and Threats analysis is a helpful summary indicating how management focuses its decisions in relation to the business strategy for the Protein Technologies business segment.

Strengths	<ul style="list-style-type: none"> <li>• Recurring revenues from external licensing and partnering of technologies</li> <li>• Strong product pipeline</li> <li>• Innovative technologies</li> <li>• Validated products</li> <li>• Some products target niche markets</li> <li>• Turn-key services</li> <li>• Technologies integrated for long-term of client products</li> <li>• Solid management team</li> <li>• Established sales force</li> </ul>	Weaknesses	<ul style="list-style-type: none"> <li>• Some products target niche markets</li> <li>• Ability to recognize revenues from complex contracts with multiple deliverables</li> </ul>
Opportunities	<ul style="list-style-type: none"> <li>• Development of innovative products for new applications</li> <li>• Ability to scale according to client needs</li> <li>• Vast partnering opportunities</li> </ul>	Threats	<ul style="list-style-type: none"> <li>• Ability to stay competitive in rapidly changing environment</li> <li>• Client products have to undergo regulatory process</li> <li>• Subject to client timeline</li> <li>• Fluctuating exchange rates</li> <li>• Government processes</li> </ul>

ProMetic's strategy in relation to the **Therapeutics** business segment has been to develop orally active compounds leading to more convenient and cost-effective treatment regimes in already developed markets or targeting unmet medical needs. 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.

The business model for this division is to partner promising drug candidates upon completion of *in vivo* proof of concept studies. While the Therapeutics Unit has several of such promising drug candidates, Management has acted to cut the burn-rate of this division such that only costs associated with the regulatory and partnering activities for PBI-1402 and its analogues are incurred.

These cost-saving measures are clearly reflected in the financial statements accompanying this Discussion and Analysis.

## Financing Strategy

Across the business, Management monitors closely the company's financial performance, both actual and forecasted, to ensure that appropriate measures are taken to limit cash burn.

In late 2008, the Company declared that it would seek to finance the business during 2009 using non-dilutive financing, recognizing that shareholders had experienced dilution in the past.

Throughout 2009, the Company has been successful in securing patient debt, principally from existing shareholders whose interests are aligned with those of the business. In addition, funds have been advanced by Octapharma, a customer with whom ProMetic has long-term supply arrangements, with repayments being made against future sales of product to that customer. Furthermore, working capital grants have been secured from the Isle of Man DTI to assist with the growth of PBL's business.

Certain of these arrangements have required the up-front payment of interest in the form of shares. Therefore, the funding is partially dilutive, but the level of dilution has been minimal in comparison to the dilution level that would have been incurred if a straight equity investment or other more commonly available instruments had been used to finance the Company.

Clearly, the debt raised by the Company has had an impact on the balance sheet, increasing liabilities compared with increasing shareholder equity if the finance had been raised through the sale of common stock. However, the structure of the Abraxis investment allows for repayment to be made in equity.

## Key performance drivers

The company has identified the following list of key performance drivers for each of the business units. It is the intention of the company to provide status updates and to review the relevance of each performance driver on a quarterly basis in subsequent issues of the MD&A.

### PBL

- Maintain a profitable bioseparations business
- Generate positive cash-flow from operations
- Expand affinity adsorbent sales
- Establish long-term supply agreements
- Develop new strategic alliances

### PBT

- Drive collaboration programs with existing partners including Abraxis, WIBP/Sinopharm, Kedrion, Blue Blood and Sartorius
- Expand the number of strategic partners and products developed
- Build a solid pipeline of products

### EVENTS 2009 onwards

- PBL has increased its contribution to the costs of the wider group year-on-year since 2007
- PBL generated net cash inflows during 2009. These are forecast to increase in 2010.
- New contracts signed and expansion on existing contracts – Halozyme, large European biopharmaceutical
- Overall sales in PBL exceeded GBP 5M in 2009 and rising in 2010.
- Agreement signed with Octapharma and Halozyme during 2009.
- Strategic alliance with Novozymes signed in 2010.
- Collaboration with WIBP/Sinopharm proceeding well. WIBP/Sinopharm personnel recently trained at PBT laboratories.
- Work with Abraxis continues on the development of a key compound and is progressing towards the next stage.
- Further opportunities are being explored with Kedrion.
- Current focus is on delivering quality results for existing customers; these will be used as the catalyst to expand into new relationships.
- Currently 7 products are in the process of development. A further 2 are being actively pursued.

- Expand business to include manufacturing of bulk active for existing partners and others
- Work is progressing towards this objective, with production of first bulk material for clinical trials expected in 2011.

## PRDT

- Adoption of P-Capt ® in UK
- Recommendation for adoption in children born after January 1, 1996 by SaBTO
- Adoption of P-Capt ® in Ireland as well as other European countries
- Heightened awareness at top levels of the UK government
- Expand commercial use of prion reduction resin in bulk applications
- Expansion of trials into Cavan General Hospital and Crumlin Hospital in Ireland
- Contract with Octapharma for OctaplasLG®

## PBI

- Partner PBI-1402 and or analogues
- Partnering discussion are ongoing
- New data to support expanded potential uses
- Peer-reviewed data presented at the Annual Meeting of the American Society of Nephrology
- Regulatory milestones in key markets
- FDA guidance corroborating ProMetic's regulatory pathway for PBI-1402 and its analogues

## Capability to Deliver Results

### Capital Resources

The Company has no commitments for capital expenditure at the date of the financial statements.

Over the coming periods, it may be necessary for the Company to invest in further capital expenditure in order to service the requirements of some of its contracts. It is important to note however that PBL's current manufacturing capacity far exceeds its current level of sales. At the present time, the resources are being fully employed, but are manufacturing batch sizes which are below the optimal size. PBL's current manufacturing capacity can therefore accommodate significant revenue growth such that there is no linear relationship between the incremental costs and revenue growth.

As the Company grows and develops a sustainable revenue line and resulting positive cash flow, it should be possible for the business to raise cash for expansion through debt facilities.

### Liquidity

Current assets totaled \$13.7 million as at March 31, 2010, and \$5.4 million as at March 31, 2009.

Accounts receivable were \$3.7 million as at March 31, 2010, compared to \$2.6 million as at March 31, 2009. Accounts receivable consist mostly of trade receivables related to the sale of resin, as well as

research and development tax credits receivable related to the activities of our Therapeutics Unit. The net capital assets remained stable at \$1.1 million as at March 31, 2010, compared with March 31, 2009.

Cash increased to \$8.1 million as at March 31, 2010. In 2009, the Company issued 11,759,520 shares relating to interest payments on loan arrangements. The year-to-date amount of loans received under these arrangements amounts to \$5.7 million.

Attention is drawn to the Post-balance Sheet Events section of the Managements' Discussion and Analysis for the year ended December 31, 2009, relating to additional financing secured since December 31, 2009.

Clearly, the debt raised by the Company has had an impact on the balance sheet, increasing liabilities compared with increasing shareholder equity if the capital had been raised through the sale of common stock. However, the structure of the Abraxis investment allows for repayment to be made in equity.

## Intellectual Property and Technology

The Company and each of its business segments are entirely reliant on its Intellectual Property ("IP") assets in the form of Patents and Trademarks, as well as know-how. The Company employs an in-house Senior Legal Counsel and a Patent & Trademark Coordinator who administer the IP portfolio. A significant budget is allocated each year for the creation, maintenance and protection of the IP portfolio. Know-how is protected by confidentiality arrangements and staff with said know-how is regarded as an important asset for the ProMetic group.

## Human Capital

The most vital non-capital resource is the know-how the Company has in its employees. ProMetic has a talented team of staff and an experienced management team that share in the company's vision and recognise its potential. All employees participate in the Company's Stock Option Plan. The contribution of senior executives to the results of corporate and business units is recognized through a combination of base salary and benefits, and through equity based compensation or the payment of cash bonuses when the financial situation of the Corporation allows for it. Such incentive payments may only be paid if certain specific performance goals within each individual business unit are achieved or if certain subsidiary companies reach breakeven financial results. Such performance goals fall into three (3) main categories: (i) the actual creation of a joint-venture or new business entity which result in additional valuable assets for the shareholders; (ii) the creation of value as a result of the execution of the business plan; and (iii) the spin-off, IPO, merger, outright sale of a business unit or any other similar transaction that provide cash or other valuable consideration into PLI.

Flexibility exists to add other incentives should other shareholder value transactions occur outside of the scope of the above. Finally, when the Corporation becomes profitable on the basis of recurring revenue and royalties, bonus for all executives and senior scientists based on performance and on profitability goals will be established.

## Results and outlook

### Results of Operations

Quarter ended March 31, 2010, compared to quarter ended March 31, 2009

#### Revenues

Total revenues for the first quarter of 2010, which were derived from the Protein Technologies unit, were \$3.2 million compared with \$3.8 million in 2009.

The growth in revenue came primarily from sales of affinity adsorbents to major pharmaceutical companies.

There were no significant revenues associated with the Therapeutics business unit.

## Costs of Goods Sold and Rechargeable Research and Development Expenses

The combined costs of goods sold and rechargeable research and development expenses for the quarter ended March 31, 2010, totalled \$1.2 million compared to \$0.9 million for the quarter ended March 31, 2009. This difference is explained by the mix of product sales from period to period and by the volumes of individual products sold within that mix.

Based on the combined cost of goods sold and the rechargeable research and development expenses, a gross profit of 63.0% was achieved during the first quarter of 2010 compared to 77.1% for the same quarter in 2009. The difference is due to differing mix of products and services sold.

## Research and Development Expenses – Non rechargeable

Non rechargeable research and development expenses were \$2.9 million for the quarter ended March 31, 2010, compared to \$3.2 million for the quarter ended March 31, 2009. The variance is mainly attributable to the ongoing strategic cost reduction program implemented by Management. Some of these savings are showing their full-year effect in 2010, having been implemented during 2009.

## Administrative and Marketing Expenses

Administrative and marketing expenses were \$1.5 million for the first quarter of 2010 compared to \$1.3 million for the same quarter in 2009. The variance is mainly attributable to the increase of legal fees related to financing and corporate matters.

## Amortization Expenses

Amortization and write-off expenses for the first quarter of 2010 were \$0.7 million compared to \$0.3 million in 2009.

## Net Results

The Company generated a net loss of \$3.1 million or \$0.01 per share (basic and diluted), for the first quarter ended March 31, 2010, as compared to a net loss of \$2.0 million or \$0.01 per share (basic and diluted) for the quarter ended March 31, 2009. The increase in net loss is mainly due to lower revenues, higher administration and marketing expenses and exchange rate movement.

## EBITDA by Business Units

Quarter ended March 31, 2010 - In millions of dollars

	Protein Technologies	Therapeutics	Corporate	Intersegments transactions	Total
Revenues	3.2	-	-	-	3.2
Cost	3.9	0.4	1.3	-	5.6
EBITDA	(0.7)	(0.4)	(1.3)	-	(2.4)

The EBITDA is a non Canadian GAAP measure employed by the Company to monitor its performance. The Company calculates its EBITDA by subtracting from Revenues its Costs of Goods Sold, excluding amortization of capital assets, its Research and Development Expenses Rechargeable and Non-Rechargeable as well as its Administration and Marketing Expenses.

## Cash Flows

Cash flows used in operating activities amounted to \$4.9 million for the quarter ended March 31, 2010, compared with \$1.0 million for the quarter ended March 31, 2009. This difference mainly relates to supplier payments made following receipt of the investment from Abraxis.

Cash flows received from financing activities amounted to \$12.2 million for the quarter ended March 31, 2010, resulting from the equity investment and the proceeds from the loan agreement with Abraxis.

## Summary of Quarterly Results

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

	2010	2009	2009	2009	2009	2008	2008	2008
	March 31	December 31	September 30	June 30	March 31	December 31	September 30	June 30
Revenues	3.2	4.3	3.2	2.3	3.8	4.0	3.3	1.1
Net Profit/(loss)	(3.1)	(2.4)	0.2	(5.1)	(2.0)	(5.2)	(3.6)	(5.6)
Net loss per share (basic and diluted)	0.01	0.01	0.00	0.02	0.01	0.02	0.01	0.02
Weighted average number of outstanding shares	341	331	327	320	317	294	286	286

## Related Party Transaction

On December 5, 2008, the Company entered into an agreement to provide a guarantee (the "Guarantee") in favor of Camofi Master LDC ("Camofi"), relating to an amended and restated loan agreement (the "Loan") that Camofi had provided to a company ("the borrower") wholly owned by a senior officer of the Company. The Loan was originally contracted in December 2007 for the purposes of purchasing shares of the Company.

The Guarantee provides that the Company must be prepared to fulfill the borrower's obligations with respect to the full payment of capital and interest for the Loan if the borrower is unable to do so. Any such payment shall be made within two days of receipt of notice of default from Camofi. Alternatively, the borrower can force Camofi to liquidate some or all of the shares of the Company that are held as collateral to cover the Loan. If called upon under the Guarantee, the Company may chose either to pay in cash or request that the borrower instruct Camofi to liquidate up to 2,300,000 shares of the Company to repay the Loan.

In conjunction with the above, the Company has entered into an agreement with the borrower providing that any payment made by the Company under the Guarantee immediately triggers an equivalent receivable from the borrower. This receivable bears interest at 10% per annum, is evidenced by a demand promissory note and, upon termination of the Loan and the pledge agreement, will be secured by 2,300,000 shares of the Company until all payments of principal and interests owed to the Company are made. This receivable will be recorded at fair value by the Company only when its collectability is reasonably assured.

The Company risks losing a maximum amount of \$2.3 million including interests and penalties, without taking into consideration the net proceeds arising from the disposal of the 9,500,000 pledged shares of the Company. The Company has not required any consideration in exchange for this Guarantee. As at December 31, 2009, the Loan had an outstanding balance of \$0.9 million (\$1.7 million in 2008). The deadline has been extended while the parties are negotiating a revised schedule of payments including capital, interests and penalties. As at December 31, 2009, the Company has recognized an amount of \$0.9 million (\$1.1 million in 2008) as a loss.

On March 25, 2010, the parties entered into a settlement agreement, which called for the Company to pay to Camofi an amount of US\$800,000 (CDN\$837,280) on April 1, 2010, in addition to a payment of US\$250,000 (CDN\$260,725) made by the Company in January 2010, for the full payment of the outstanding balance of the loan and the termination of the borrower's and the Company's obligations.

Concurrent with this settlement agreement being reached, an amended and restated loan agreement was entered into between the borrower and the Company requiring the borrower to fully repay the Company no later than March 31, 2013, subject to receiving shareholder approval at the next Annual General Meeting of the shareholders. Furthermore, should certain stock price thresholds be reached, the Company may require the borrower to pay the unpaid balance of the loan. Should shareholder approval thereon not be received, the borrower could be required to fully repay the Company no later than 30 days following said negative shareholder vote. Finally, the said loan is secured by a pledge in favor of the Company by the borrower of 9,500,000 shares of the Company stock. The loan is also secured by a pledge in favor of the Company by Invhealth Capital Inc. of all its shares of the borrower and by a pledge in favor of the Company by the senior officer of the Company of all his shares of Invhealth Capital Inc.

As a result of a request by the TSX, ProMetic, during March 2010, issued a press release disclosing the arrangements relating to the Guarantee.

## Capital Stock Information

### *Authorized Share Capital*

The authorized share capital of the Company consists of an unlimited number of common shares, and an unlimited number of preferred shares issuable in series.

### *Issued and Outstanding Share Capital*

The following details the issued and outstanding equity securities of the Company:

#### *Common Shares*

As at March 31, 2010, the capital stock issued and outstanding consisted of 349,593,400 common shares (331,743,400 as at December 31, 2009).

As at May 11, 2010, the capital stock issued and outstanding consisted of 349,593,400 common shares.

#### *Stock Options*

As at March 31, 2010, the Company has 8,642,551 stock options outstanding with exercise prices ranging from \$0.13 to \$2.70

## Outlook

Management's outlook for 2010 remains positive. Despite the fact that revenues from our development contracts have been lower than expected, resulting from amendments to the programs requested by our clients, management has been able to control and modulate the cost base of the business to respect previous EBITDA forecasts.

In the UK, during November 2009, SaBTO issued its recommendation for adoption of the P-Capt® filter for children born after January 1, 1996. The Company, in collaboration with MacoPharma SA, its commercialization partner for the P-Capt® filter, is closely monitoring the progress of this recommendation through the proper authority channels. Clearly, the delay in the P-Capt® adoption has had a significant impact on our previous revenue forecasts, and a decision to implement will have a major impact on the revenue forecasts for 2010 and beyond. Given the significant variability driven by the parameters of timing and scale of adoption, it is not yet possible to give an accurate assessment of the impact on revenues for 2010.

As evidenced by recent press announcements disclosing the long-term supply arrangements for our bioseparations products, demand for our affinity adsorbent products is strong and growing, and we anticipate an increased turnover from PBL in 2010.

Discussions with PBT's partners will continue in 2010 and will drive the level of anticipated business for that subsidiary. In addition, partnering discussions continue with regard to PBI-1402, however, until a deal is signed, we will exclude revenues from this activity in our projections.

Finally, and in line with earlier commitments, Management will continue to control costs with a view to driving profitability.

Ongoing effects of foreign exchange variances will be monitored and additional steps will be put in place in an effort to minimise the impact going forward.

### **International Financial Reporting Standards**

In March 2009, the Canadian Accounting Standards Board reconfirmed in its second omnibus Exposure Draft that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will prepare its financial statements in accordance with IFRS commencing January 1, 2011; thus, its first quarter under IFRS reporting standards will be for the three months ended March 31, 2011 for which current and comparative information will be prepared under IFRS as well as an opening IFRS balance sheet as at January 1, 2010.

Described below are the Company's IFRS changeover plan, selected key activities and their status, and the significant, known possible high impact accounting areas on the Company's financial reporting identified to date.

This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could have an impact on these assumptions or expectations.

#### *IFRS changeover plan*

The Company has developed a detailed plan for its changeover to IFRS comprised of three phases:

- Phase 1: Scope and Plan
- Phase 2: Design and Build
- Phase 3: Implementation and Review

The Company is progressing according to schedule as it nears the completion of the scoping and planning phase regarding its convergence plan. The effects of any Canadian GAAP to IFRS differences noted to date during the Company's first Phase of its changeover plan have not yet been quantified. The Company has completed its Phase 1 stage and has moved into Phase 2. The findings of Phase 1, insofar as they relate to the significant accounting areas for conversion to IFRS that will impact the Company's financial statements are summarized below.

## **Phase 1: Scope and Plan**

The objective of this phase was to identify the required changes to the Company's accounting policies and practices resulting from the changeover to IFRS and to thereby determine the scope of the work effort required for the subsequent phases of the project.

Phase 1 involved:

- a review of all relevant IFRS standards to identify differences with the Company's current accounting policies and practices;
- the separate consideration of one-time accounting choices that must be addressed at the changeover date and those accounting policy choices that will be applied on an ongoing basis in periods subsequent to the changeover to IFRS;
- Initiating the prioritization process for those differences that could have a more than inconsequential impact on the Company's financial statements, business processes, or Information Technologies systems.

## **Phase 2: Design and Build**

Phase 2 involves the design and development of detailed solutions to address the differences identified in Phase 1. These solutions typically result in certain necessary changes to internal business processes and financial systems to comply with IFRS accounting and disclosure requirements. Phase 2 activities will include:

- the in-depth analysis, quantification and documentation of key differences identified in Phase 1 requiring changes to existing accounting policies;
- identifying processes and controls which would require changes to ensure compliance with the requirements of the applicable international accounting standards;
- The implementation of a change management strategy to address the information and training needs of internal and external stakeholders.

## **Phase 3: Implementation and Review**

In the third and final phase of the Company's changeover plan, changes, if any, to affected accounting policies and practices, business processes, systems and internal controls will be implemented. These changes will be tested prior to the formal reporting requirements under IFRS to ensure all significant differences are addressed in time for the changeover.

### **Progress towards completion of the Company's IFRS changeover plan**

As mentioned above, the Company has now finalized Phase 1. It has reviewed all currently relevant IFRS standards and identified a number of areas of possible accounting differences under IFRS as compared to Canadian GAAP. The Company has also determined, however, that its current accounting policies generally are aligned with IFRS requirements in many key areas. The Company will continue to monitor changes to IFRS throughout 2010 and will review and assess any new or modified IFRS standards that are issued prior to changeover. The following summarizes the significant accounting areas for conversion to IFRS that will impact the Company's financial statements:

#### **IFRS 1 "First Time Adoption of Reporting Standards"**

IFRS 1, "First-Time Adoption of International Financial Reporting Standards" ("IFRS 1"), provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application of IFRS. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate for ProMetic. The areas identified which the Company is considering are:

**Cumulative translation differences** - Enables an entity to reset all cumulative translation differences for all foreign operations to zero at date of transition, with the balance transferred to retained earnings (deficit).

**Share-based payment transactions** – Full retrospective application of IFRS 2 “Share-based Payment” may be avoided for certain share-based instruments depending on the grant date, vesting terms and settlement of any related liabilities.

### **IAS 32 “Financial Instruments Presentation” and IAS 39 “Recognition and Measurement”**

The standards and their current Canadian GAAP equivalents, are based on the same basic principles, however, the guidance is not fully harmonized. As a result, certain instruments could be measured and or classified differently under IFRS

Notwithstanding the above, the scope of IAS 32 is broader than Section 3863 “Financial instruments – Presentation”, due in part to the broadened definition of what qualifies as a financial asset and financial liability. Careful review of the definitions and scope exemptions in IAS will have to be performed to conclude on this matter.

Based on ProMetic’s preliminary assessment, it would appear that the current accounting treatment for the preferred shares as equity under GAAP would be consistent with IAS 32 since ProMetic controls whether the shares can be redeemed.

In terms of the options to acquire shares, and the recent loan and equity financing, a review of the details of the arrangement(s) will be performed to determine whether the current treatment under Canadian GAAP will continue to be appropriate under IFRS (measured at fair value and presented in equity).

With respect to recording and measurement, ProMetic will need to review its classification of financial instruments based on the IAS 39 criteria to identify potential differences.

For embedded derivatives, ProMetic will need to perform a cursory review of long-term contracts to determine whether any still in existence and entered into prior to January 1, 2003 are still in force and if so whether they contain embedded derivatives.

For available for sale securities, the company has already identified a difference for the recording and measurement of its AM-Pharma Holding B.V Convertible preferred shares. ProMetic has determined on a preliminary basis that these shares, presently measured at cost under Canadian GAAP may have to be measured at fair value for IFRS purposes.

### **IAS 36 “Impairment of Assets”**

Under Canadian GAAP, capital assets and licenses and patents subject to amortization are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. IAS 36 requires that an entity assess at each reporting date whether there is any indication that an asset may be impaired. Conceptually, IAS 36 therefore requires a more active ongoing consideration of all possible indicators of impairment.

As it relates to the measurement of the impairment loss, under Canadian GAAP for assets other than financial assets, a write-down to estimated fair value is recognized if the estimated undiscounted future cash flows from an asset or group of assets are less than their carrying value. Under IFRS, IAS 36, a write-down is recognized if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or the discounted future cash flows from an asset or group of assets, is less than carrying value. Under Canadian GAAP impairments are measured at the amount by which carrying value exceeds fair value and under IFRS, they are measured as the excess of carrying value over recoverable amount.

The difference in testing and determining an impairment may result in more frequent impairment charges, where carrying values of assets may have been supported under Canadian GAAP on an undiscounted cash flow basis, but cannot be supported on a discounted cash flow basis.

IAS 36 also requires the reversal of any previous impairment losses where circumstances requiring the impairment charge have changed and reversed. Canadian GAAP does not permit the reversal of impairment losses in any circumstance.

ProMetic will be required to actively assess a minimum set of impairment indicators at each reporting period and document this quarterly assessment. Under IFRS, ProMetic will need to assess impairment in terms of the recoverable amount as defined under IFRS. ProMetic will monitor possible subsequent reversals of previously written down assets which are not allowed under Canadian GAAP; this will require that ProMetic track assets and their original carrying values as well as implied accumulated depreciation for possible future reversals of impairment allowed under IFRS.

### **IAS 37 “Provisions, contingent liabilities and contingent assets”**

IAS 37, “Provision, Contingent Liabilities and Contingent Assets”, requires a provision to be recognized when all of the following conditions have been satisfied: (1) there is a present obligation as a result of a past transaction or event; and (2) it is probable that an outflow of resources will be required to settle the obligation; and (3) a reliable estimate can be made of the obligation. “Probable” in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is “likely”, which is a higher threshold than “probable”. Therefore, it is possible that there may be some contingent liabilities which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP.

Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP uses the low end of the range), and there is a requirement under IFRS for provisions to be discounted where material.

- Due to the difference with respect to the threshold, ProMetic will have to assess if provisions not recognized under GAAP need to be recognized under IAS 37 at the date of transition. ProMetic will monitor possible amendments to IAS 37 and their date of application which are expected to be published in the second half of 2010.

In addition, ProMetic is currently assessing whether there are any current constructive obligations which would require recognition under IFRS not recognized under Canadian GAAP.

The Company has performed a preliminary analysis of its data system infrastructure and internal controls and has concluded that transition to IFRS will not result in a material modification to any of its IT processes as a result of the differences it has identified to date. Significant impacts identified, if any, on processes and controls will be disclosed in future filings when the assessment will be finalized.

Phase 2 of the changeover plan began in the second quarter of 2010. During 2010, the Company will complete the selection of accounting policies and transition options under IFRS as well as quantify the effect on opening IFRS retained earnings (i.e. as at January 1, 2010), if any.

During the fourth quarter of 2010, i.e. the approximate start date of Phase 3, the Company will complete the work effort undertaken to ready business processes and internal controls for the changeover.

Appropriate resources have been secured to complete the changeover on a timely basis according to the Company’s plan milestones. The Company will ensure that training needs are met and addressed throughout the changeover period. Third-party subject matter experts will assist the Company throughout the changeover.

Summarized below is a description of the Company’s progress towards completion of selected key activities of our IFRS changeover plan as of March 25, 2010. Additional information will be provided as the Company approaches the changeover date.

Selected Key Activities	Milestones / Deadlines	Progress to date
<b>Financial statement preparation</b>		
<ul style="list-style-type: none"> <li>• Identify relevant differences between IFRS and our accounting policies and practices and design and implement solutions;</li> <li>• Evaluate and select one-time and ongoing accounting policy alternatives;</li> <li>• Benchmark findings with peer companies;</li> <li>• Prepare financial statements and related note disclosures to comply with IFRS</li> <li>• Quantify the effects of changeover to IFRS.</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment and quantification of the significant effects of the changeover completed by approximately the third quarter of 2010;</li> <li>• Final selection of accounting policy alternatives by third quarter of 2010.</li> </ul>	<ul style="list-style-type: none"> <li>• Completed the identification of IFRS differences;</li> <li>• Assessment and quantification of the impact of one-time transition choices will commence in the second quarter of 2010.</li> </ul>
<b>Training and communication</b>		
<ul style="list-style-type: none"> <li>• Provide training to affected employees, management and the Board of Directors including the Audit Committee;</li> <li>• Engage third-party subject matter experts to assist in the transition</li> <li>• Communicate progress of changeover plan to internal and external stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>• Timely training provided to align with work under changeover - training completed by end 2010;</li> <li>• Communicate effects of changeover throughout 2010 and 2011.</li> </ul>	<ul style="list-style-type: none"> <li>• Third-party subject matter experts have been engaged and assisted management with the identification of differences through Phase I.</li> </ul>
<b>Internal controls (financial reporting and disclosure controls and procedures)</b>		
<ul style="list-style-type: none"> <li>• Revise existing internal control to address significant changes to existing accounting policies and practices, if any, including the need for dual record-keeping during 2010;</li> <li>• For changes to accounting policies and practices identified, assess the design and effectiveness of related controls.</li> </ul>	<ul style="list-style-type: none"> <li>• Changes completed by third quarter of 2010 once accounting policy choices have been finalized and approved.</li> </ul>	<ul style="list-style-type: none"> <li>• MD&amp;A disclosures began in December 2008;</li> <li>• Audit committee follows status of conversion plan at interim and year-end meetings.</li> </ul>

## Risk

Since inception, the Company has concentrated its resources on research and development. It has had no net earnings, growing revenues which do not yet fully offset the cost base of the Company, resulting in negative operating cash flows, working capital deficiencies and a shareholder's deficiency as at December 31, 2009. The Company has financed its activities through bank loans, government financial support and the issuance of debt and equity. The Company's ability to continue as a going concern is dependent on raising additional funds either from the issuance of shares or long-term debt and achieving profitable operations. The Company's ability to increase revenue or raise additional capital to generate sufficient cash flows to continue as a going concern is subject to significant doubt and significant risks,

including those described above. 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.

Commercial Risk	<p>The global economic environment may on occasion impact the ability of the Company's contracted customers to progress on certain segments of R&amp;D and service agreements according to previously anticipated timelines.</p> <p>The Company mitigates the commercial risk associated to these contracts through constant monitoring of the progression of customer R&amp;D and service contracts and by adjusting the Company's cost base in line with the revised revenue forecast to ensure that ProMetic respects its EBITDA ("earnings before interest, tax, depreciation and amortization"), projections as far as possible.</p>
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Financial Risk	<p>Until each of the units is independently financed, the success of the Company is dependent on its ability to support the development of its two operating units and its ability to bring its products to market, obtain the necessary regulatory approvals, and achieve future profitable operations. This is dependent on the Company's ability to obtain adequate financing through a combination of financing activities and operations. It is not possible to predict either the outcome of future research and development programs nor the Company's ability, nor its operating units' ability, to fund these programs going forward.</p>
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Credit Risk	<p>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, investments, receivables and share purchase loan to an officer. The carrying amount of the financial assets represents the maximum credit exposure.</p> <p>The financial instruments that potentially expose the Company to credit risk are primarily cash, trade accounts receivables and the excess of the interest in the joint venture PRDT over proportionate share in consolidated net assets.</p> <p>The Company invests its cash in high quality commercial paper issued by government agencies and financial institutions and diversifies its investments in order to limit its exposure to credit risk, while following approved investment guidelines.</p> <p>The Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance.</p>
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Liquidity Risk	<p>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.</p> <p>Accounts payable and accrued liabilities are due within the current operating period.</p>
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Market Risk	<p>Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Company's income or the value of its financial instruments.</p> <p><i>Interest Risk</i></p> <p>The majority of the Company's debt is at fixed rate, there is limited exposure to interest rate risk.</p> <p><i>Foreign Exchange Risk</i></p> <p>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 U.S. and portion of its expenses incurred and revenues generated are in US dollar and in pound sterling. Financial instruments potentially exposing the Company to foreign exchange risk consist principally of cash, receivables, accounts payable and accrued liabilities and long-term debt. The Company manages the foreign exchange risk by holding foreign currencies on hand to support foreign currencies forecasted cash outflows, and the majority of the Company's revenues are in US dollar and in pound sterling which mitigates the foreign exchange risk.</p>
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Equity Risk	<p>The changes in the Company's equity price could impact its ability to raise additional capital.</p>
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## Oversight of reliability of disclosures

Management has developed and maintains effective systems, controls and procedures to ensure that information used internally and disclosed externally is reliable and timely. During the past year, the control framework has once again been tested against the requirements of COSO, a recognised control model. The Chief Executive Officer and Chief Financial Officer certify the filings as required in Canada by Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings).

The Board of Directors oversees management's responsibilities for financial reporting through the Audit Committee, which is composed of three Independent Directors who are not officers or employees of the Company. The Audit Committee meets regularly with management and reviews the Company's interim and annual consolidated financial statements and MD&A and recommends them for approval to the Board of Directors. Other key responsibilities of the Audit Committee include monitoring the Company's system of internal control, monitoring its compliance with legal and regulatory requirements selecting the shareholders' auditors and reviewing the qualifications, independence and performance of the shareholders' auditors.

Raymond Chabot Grant Thornton, the shareholders' auditors obtain an understanding of the Company's internal controls and procedures for financial reporting to plan and conduct such tests and other audit procedures as they consider necessary in the circumstances to express their opinion in any audit report they issue in relation to the Company. The shareholders' auditors have full independent access to the Audit Committee to discuss their audit and related matters.

Furthermore, all members of the Board of Directors and employees of ProMetic must comply with the Company's Information Disclosure policy. It addresses the management and use of information relating to or concerning ProMetic, including press releases, documents filed with securities regulatory authorities, including annual reports and quarterly reports issued by the Company, letters to shareholders,

management presentations and information posted on the Company website and disclosed via other electronic means of communication, as well as the disclosure of confidential information to third parties.

The objective of this Information Disclosure Policy is to ensure that all information released to the public regarding ProMetic is:

- Timely, factual and exact; and
- Widely disseminated in compliance with applicable securities laws.

The Disclosure Committee, which consists exclusively of Management, is mandated with the responsibility for:

- The contents and periodic review of this Information Disclosure Policy;
- Its implementation;
- Overseeing and monitoring its implementation and enforcement;
- Training of ProMetic management, directors and employees in matters pertaining to the disclosure of information;
- Examining information and authorizing its disclosure (in electronic, written or verbal form) before its dissemination to the public; and
- Monitoring the Company's and its subsidiaries' website contents.

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

	<b>March 31,</b>	December 31,
	<b>2010</b>	2009
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>ASSETS</b>		
Current assets		
Cash	\$ 8,095	\$ 493
Accounts receivable (note 4)	3,698	2,612
Inventories (note 5)	1,625	2,128
Prepaid expenses	277	201
	<b>13,695</b>	<b>5,434</b>
Investments (note 6)	527	609
Capital assets	1,109	1,133
Licenses and patents	3,846	3,908
	<b>\$ 19,177</b>	<b>\$ 11,084</b>
<b>LIABILITIES</b>		
Current liabilities		
Bank loan ( note 7)	\$ -	\$ 911
Accounts payable and accrued liabilities (note 8)	5,623	6,956
Deferred revenues	1,026	910
Current portion of long-term debt (note 9)	5,775	3,137
Current portion of advance on revenues from a supply agreement (note 10)	745	1,316
	<b>13,169</b>	<b>13,230</b>
Long-term debt (note 9)	9,892	2,296
Advance on revenues from a supply agreement (note 10)	2,071	1,826
	<b>25,132</b>	<b>17,352</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 11)	215,929	212,728
Contributed surplus	10,099	10,019
Accumulated other comprehensive loss	(520)	(735)
Deficit	(231,463)	(228,279)
	<b>(5,955)</b>	<b>(6,268)</b>
	<b>\$ 19,177</b>	<b>\$ 11,084</b>

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

**PROMETIC LIFE SCIENCES INC.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(In thousands of Canadian dollars except for per share amounts)

(Unaudited)

	<b>Quarters ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues</b>	<b>\$3,168</b>	<b>\$3,847</b>
<b>Charges</b>		
Costs of good sold excluding amortization of capital assets	981	421
Research and development expenses rechargeable	191	461
Research and development expenses non rechargeable	2,900	3,215
Administration and marketing expenses	1,501	1,302
Loss (Gain) on exchange rate	147	(250)
Amortization of capital assets	70	212
Amortization of license and patents	102	96
	<b>5,892</b>	<b>5,457</b>
<b>Loss before the following items</b>	<b>(\$2,724)</b>	<b>(\$1,610)</b>
Gain on disposition of capital assets	251	-
Charges related to a guarantee (note 12)	(180)	-
Net interest expenses and penalties	(467)	(425)
<b>Net loss and comprehensive loss</b>	<b>(\$3,120)</b>	<b>(\$2,035)</b>
Net loss per share (basic and diluted)	<b>(0.01)</b>	<b>(0.01)</b>
Weighted average number of outstanding shares (in thousands)	<b>341,462</b>	<b>317,402</b>
<b>Comprehensive loss</b>		
Net loss	<b>(\$3,120)</b>	<b>(\$2,035)</b>
Foreign currency translation adjustment	215	(735)
<b>Total Comprehensive loss</b>	<b>(\$2,905)</b>	<b>(\$2,770)</b>

**For supplemental operations information, see note 14***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)

For the quarters ended March 31, 2010 and 2009

	Stock-based compensation	Warrants and rights to acquire shares	Other	Total contributed surplus
<b>CONTRIBUTED SURPLUS, AS AT DECEMBER 31, 2008</b>	\$ 1,064	\$ 6,138	\$ 2,136	\$ 9,338
Stock-based compensation	97	-	-	97
<b>CONTRIBUTED SURPLUS, AS AT MARCH 31, 2009</b>	\$ 1,161	\$ 6,138	\$ 2,136	\$ 9,435
<b>CONTRIBUTED SURPLUS, AS AT DECEMBER 31, 2009</b>	1,402	6,481	2,136	10,019
Stock-based compensation	80	-	-	80
<b>CONTRIBUTED SURPLUS, AS AT MARCH 31, 2010</b>	\$ 1,482	\$ 6,481	\$ 2,136	\$ 10,099

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

**PROMETIC LIFE SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS**

(In thousands of Canadian dollars)

	Quarters ended March 31,	
	2010	2009
<b>Balance, beginning of the period</b>	(\$735)	\$ -
Foreign currency translation adjustment	215	(885)
<b>Balance, end of the period</b>	<b>(\$520)</b>	<b>(\$885)</b>

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

As of March 31, 2010, the sum of deficit and accumulated other comprehensive loss is \$231,984.

**PROMETIC LIFE SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF DEFICIT**

(In thousands of Canadian dollars)

	Quarters ended March 31,	
	2010	2009
<b>Deficit, beginning of the period</b>	<b>\$228,279</b>	<b>\$218,897</b>
Net Loss	3,120	2,035
Share issue expenses	64	2
<b>Deficit, end of the period</b>	<b>\$231,463</b>	<b>\$220,934</b>

*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)  
Quarters ended March 31,

	2010	2009
<b>Cash flows used in operating activities</b>		
Net loss and comprehensive loss	\$ (3,120)	\$ (2,034)
Adjustments to reconcile net loss to cash flows used in operating activities		
Interests on long-term debt	286	198
Gain on disposal of capital assets	-	(2)
Stock-based compensation	80	97
Unrealized (gain) loss on exchange rate	(36)	85
Amortization and write-off of capital assets	70	212
Amortization and write-off of license and patents	102	96
	<b>(2,618)</b>	<b>(1,348)</b>
Change in working capital items (note 16)	<b>(2,307)</b>	333
	<b>(4,925)</b>	<b>(1,015)</b>
<b>Cash flows from financing activities</b>		
Proceeds from share issues and rights to acquire shares	3,201	-
Repayment of bank loan	(911)	-
Long-term debt	10,156	2,545
Repayment of long-term debt	(141)	(1,558)
Reimbursement of advance on revenues from a supply agreement	(51)	-
	<b>12,254</b>	<b>987</b>
<b>Cash flows used in investing activities</b>		
Disposal of an investment	50	-
Additions to capital assets	(37)	(30)
Additions to licenses and patents	(27)	(36)
	<b>(14)</b>	<b>(66)</b>
Net increase (decrease) in cash	7,315	(95)
Net effect of currency exchange rate on cash	287	(398)
Cash, beginning of the period	493	917
<b>Cash, end of the period</b>	<b>\$ 8,095</b>	<b>\$ 424</b>

**For supplemental cash flow information, see note 16**

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

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

### **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 in accordance with Canadian generally accepted accounting principles and on the basis of the going concern assumption 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, which do not yet fully offset the cost base of the Company, resulting in negative operating cash flows, working capital deficiencies and a shareholders’ deficiency as at March 31, 2010. The Company has financed its activities through bank loans, government financial support and the issuance of debt and equity.

The Company’s ability to continue as a going concern is dependent on raising additional funds either from the issuance of shares or long-term debt and achieving profitable operations. Although raising funds in the current economic environment has proved difficult and the cost of accessing capital has increased, during the quarter, the Company finalized an equity investment of US\$3,000,000 and a five year loan of US\$10,000,000 with Abraxis BioScience Inc. (note 9). The Company’s ability to increase revenue or raise additional capital to generate sufficient cash flows to continue as a going concern is subject to significant doubt and significant risks, including those described above. 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, 2010 and the related unaudited consolidated statements of operations and comprehensive loss, deficit, contributed surplus and cash flows, for the quarter ended March 31, 2010 and 2009, have been prepared using accounting principles and practices consistent with those used and described in the annual financial statements.

The consolidated financial statements include the accounts of ProMetic Life Sciences Inc., of its subsidiaries ProMetic BioSciences Inc., ProMetic BioSciences (USA), Inc., ProMetic BioSciences Ltd., ProMetic BioTherapeutics Inc., ProMetic Manufacturing Inc and Pathogen Removal and Diagnostic Technologies Inc. (“PRDT”).

In 2009, the sub-group headed by ProMetic BioSciences Ltd has been determined to be autonomous within the definition of Chapter 1651, Foreign currency translation, of the CICA Handbook. Having an autonomous affiliate impacts the treatment of the gain or the loss on exchange rate, which will be part of the shareholders’ equity identified as a “Accumulated other comprehensive loss” while the gain or loss on exchange rate for integrated affiliates is showing in the statement of operations and comprehensive income. The net results in the shareholders’ equity remain the same.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

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, 2009 included in the Company's annual report to shareholders. Information as at March 31, 2010 and for the quarters ended March 31, 2010 and 2009 are unaudited.

### **3. Changes in accounting policies**

#### Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1582 Business Combinations, Section 1601 Consolidated Financial Statements and Section 1602 Non-Controlling Interests, which supersede 1581 Business Combinations and Section 1600 Consolidated Financial Statements. The standards apply to annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1582 establishes standards for the accounting for a business combination. It provides the Canadian GAAP equivalent to IFRS 3, Business Combinations (January 2008) and applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Section 1601, together with Section 1602, establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IAS 27, Consolidated and Separate Financial Statements. Earlier application of the standards is permitted. If an entity applies the Sections before January 1, 2011, it shall disclose that fact and apply Sections 1582, 1601 and 1602 at the same time. The Company is currently evaluating the impact of adopting the standards as part of its IFRS conversion plan.

#### Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175 "Multiple Deliverable Revenue Arrangements" replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE) or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption.

The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

**4. Accounts receivable**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Trade	\$ 2,501	\$ 1,531
Tax credits and sales taxes receivable	857	936
Other	340	145
	<b>\$ 3,698</b>	<b>\$ 2,612</b>

**5. Inventories**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Raw materials	\$ 385	\$ 538
Work in progress and finished goods	1,240	1,590
	<b>\$ 1,625</b>	<b>\$ 2,128</b>

The amount of inventories recognized as an expense is presented under costs of goods sold in the consolidated statement of operations and comprehensive loss.

During the quarter, there was no write-down of inventories (nil in 2009) and there was no reversal of provision previously recognized (nil in 2009).

**6. Investments**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Cash subject to certain limitations	\$ 64	\$ 69
Guaranteed investment certificates, 0.20 % and 0.60 %, expiring in June 2010 , pledged as security of letters of credit to suppliers expiring in September 2010 and November 2010	232	287
Convertible preferred shares of AM-Pharma Holding B.V.	231	253
	<b>\$ 527</b>	<b>\$ 609</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

**7. Bank loan**

	March 31, 2010	December 31, 2009
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 % (4.25% as at December 31, 2009)	\$ -	\$ 911

During the quarter ended March 31, 2010, the bank loan was fully repaid by the Company.

**8. Accounts payable and accrued liabilities**

	March 31, 2010	December 31, 2009
Accounts payable	\$ 2,953	\$ 4,039
Accruals related to a guarantee (note 15)	812	920
Accrued liabilities	1,858	1,997
	\$ 5,623	\$ 6,956

**9. Long-term debt**

	Current Portion	March 31, 2010	December 31, 2009
Promissory note (note a)	\$ 250	\$ 250	\$ 250
Other loans (note b)	5,504	15,384	5,144
Capital leases (note c)	21	33	39
	5,775	15,667	5,433
Current portion of long-term debt		5,775	3,137
		\$ 9,892	\$ 2,296

The description and the details of the different component of the long-term term are in the audited annual financial statements for the year ended December 31, 2009.

The outstanding loans have been provided by long-term shareholders and strategic partners.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

**10. Advance on revenues from a supply agreement**

Advance on revenues from a supply agreement for an initial amount of 2 million pounds sterling that could reach an amount of 2.5 million pound sterling, which is also deemed to be the fair value, and bearing interests at 5% per annum. The advance is repayable solely by the revenues received under the supply agreement as products are supplied. The advance has a 5 year term and the balance due at the maturity date is reimbursable in cash. The current portion of the advance on revenues from a supply agreement was determined with the expected product sales under the supply agreement in the 2010 financial year. A payment of \$51 was made during the quarter ended March 31, 2010.

**11. Share capital**

	March 31, 2010		December 31, 2009	
	Number	Amount	Number	Amount
Issued and fully paid common shares	349,593,400	\$ 216,379	331,743,400	\$ 213,178
Share purchase loan to an officer, without interest and due no later than December 31, 2010 (a)		(450)		(450)
Balance at end of the period		\$ 215,929		\$ 212,728

(a) The share purchase loan to an officer has been extended for a year having a new maturity date of December 31, 2010.

i) Share issue:

Changes in the issued and outstanding common shares were as follows:

	Number	Amount
Balance as at December 31, 2009	331,743,400	\$ 212,728
Shares issued	17,850,000	3,201
Balance as at March 31, 2010	349,593,400	\$ 215,929

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

b) Stock options:

The Company has established a stock option plan for its directors, officers and employees or service providers. The plan provides that the aggregate number of shares reserved for issuance at any time under the plan and any other employee incentive plans may not exceed 15,913,317 common shares. Some options may be exercised in a period not exceeding 10 years from the date they were granted. Since September 10, 2001, the new options issued may be exercised over a period not exceeding 5 years and 1 month from the date they were granted (options vest 20% per annum, after one year following the date they were granted or immediately as they are granted). The exercise price is based on the average strike price of the five business days prior to the grant.

The following table summarizes the changes in the number of stock options outstanding over the last quarter:

	Options	Weighted average exercise price per share
Number of options as at December 31, 2009	8,669,391	\$0.39
2010 Granted	-	-
Forfeited	(16,340)	0.37
Expired	(10,500)	2.70
Number of options as at March 31, 2010	8,642,551	\$0.39

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, 2010	December 31, 2009
Risk-free interest rate	-	1.26%
Dividend yield	-	0%
Expected volatility of share price	-	87.82%
Expected life	-	1 and 5 years

The estimated fair value of options granted during the year ended December 31, 2009 is \$0.06.

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

**12. Related party transaction**

On December 5, 2008, the Company entered into an agreement to provide a guarantee ("The Guarantee") in favour of Camofi Master LDC ("Camofi"), relating to an amended and restated loan agreement (the "Loan") that Camofi had provided to a company (the "borrower") wholly owned by a senior officer of the Company. The Loan was originally contracted in December 2007 for the purposes of purchasing shares of the Company.

The Guarantee provides that the Company must be prepared to fulfill the borrower's obligations with respect to the full payment of capital and interest for the Loan if the borrower is unable to do so. Any such payment shall be made within two days of receipt of notice of default from Camofi. Alternatively, the borrower can force Camofi to liquidate some or all of the shares of the Company that are held as collateral to cover the Loan. If called upon under the Guarantee, the Company may chose either to pay in cash or request that the borrower instruct Camofi to liquidate up to 2,300,000 shares of the Company to repay the Loan.

In conjunction with the above, the Company has entered into an agreement with the borrower providing that any payment made by the Company under the Guarantee immediately triggers an equivalent receivable from the borrower. This receivable bears interest at 10% per annum, is evidenced by a demand promissory note and, upon termination of the Loan and the pledge agreement, will be secured by 2,300,000 shares of the Company until all payments of principal and interests owed to the Company are made. This receivable will be recorded at fair value by the Company only when its collectability is reasonably assured.

The Company risks losing a maximum amount of \$2,300 plus interest and penalties, without taking into consideration the net proceeds arising from the disposal of the 9,500,000 pledged shares of the Company. The Company has not required any consideration in exchange for this Guarantee. As at December 31, 2009, the Loan had an outstanding balance of \$920. The deadline has been extended while the parties are negotiating a revised schedule of payments including capital, interests and penalties. In the year ended December 31, 2009, the Company recognized an amount of \$ 943 as a loss on this guarantee.

On March 25, 2010, the parties entered into a settlement agreement, which will call for the Company to pay to Camofi an amount of US\$800,000 (CDN\$837,280) on April 1, 2010, in addition to a payment of US\$250,000 (CDN\$260,725) made by the Company in January 2010, for the full payment of the outstanding balance of the loan and the termination of the borrower's and the Company's obligations.

Concurrent with this settlement agreement being reached, an amended and restated loan agreement was entered into between the borrower and the Company requiring the borrower to fully repay the Company no later than March 31, 2013, subject to receiving shareholder approval at the next Annual General Meeting of the shareholders. Furthermore, should certain stock price thresholds be reached, the Company may require the borrower to pay the unpaid balance of the loan. Should shareholder approval thereon not be received, the borrower could be required to fully repay the Company no later than 30 days following said negative shareholder vote.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

**13. Capital disclosures**

The Company's capital consists of cash, bank loan, long-term debt and shareholders' equity.

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Bank loan	\$ -	\$ 911
Long-term debt	<b>15,667</b>	5,433
Equity	<b>(5,956)</b>	(6,268)
Cash	<b>(8,095)</b>	(493)
	<b>\$ 1,616</b>	<b>\$ (417)</b>

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.

To meet the objectives in managing capital, the Company may attempt to issue new shares or to seek additional debt financing. 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 2009.

**14. Information included in the consolidated statements of operations**

	<b>Quarters ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Gross research and development expenses	\$ 3,291	\$ 3,751
Research and development tax credits	<b>(200)</b>	(75)
Interest and penalties on long term debt	<b>262</b>	2
Interest on bank loan and other interest expenses	<b>208</b>	437
Interest on other financial liabilities	<b>470</b>	439
Interest income on financial assets held for trading	<b>(3)</b>	(14)

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

**15. Financial instruments and financial risk management**

a) **Financial instruments:** The Company has classified its financial instruments as follows:

	March 31, 2010	December 31, 2009
<b>Financial assets</b>		
<b>Held for trading</b>		
Cash measured at fair value	\$ 8,095	\$ 493
Cash subject to certain limitation, measured at fair value	<u>64</u>	<u>69</u>
	8,159	562
<b>Loans and receivables</b>		
Accounts receivable And share purchase loan to an officer, recorded at amortized cost	2,841	2,126
Guaranteed investment certificates, recorded at amortized cost	<u>232</u>	<u>287</u>
	3,073	2,413
<b>Available-for-sale</b>		
Convertible preferred shares of AM-Pharma, recorded at cost	231	253
<b>Financial liabilities</b>		
<b>Other financial liabilities</b>		
Bank loan, accounts payable and accrued liabilities, measured at amortized cost	\$ 5,623	\$ 7,867
Long-term debt measured at amortized cost	15,667	5,433
Advance on revenues measured at amortized cost	<u>2,816</u>	<u>3,142</u>
	24,106	16,442

**Fair value hierarchy**

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices observed in active markets for identical assets or liabilities.

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The financial instruments in the Company's financial statements, measured at fair value, are the cash and the cash subject to certain limitation. Both financial instruments were classified as Level 1 by the Company since there is an active trading market for both of them.

**b) Fair value:**

The carrying value of cash, accounts receivable, guaranteed investment certificate, cash subject to certain limitations, bank loan and 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.

For the fair value of long-term debt, the Company discounted expected future cash flows in accordance with the loan agreements in effect using rates which the Company could use at the balance sheet date for loans with similar terms and conditions and maturity dates

**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.

**i) 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, investments, receivables and share purchase loan to an officer. 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 trade accounts receivable.

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

The company places its cash 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 while applying implemented investment guidelines in place.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

The reserve for doubtful accounts as at March 31, 2010 totals \$ 532. As at December 31, 2009, it amounted to \$ 568.

The Trade accounts receivable include an amount from one customer which represents approximately 89% of the Company's total trade accounts receivable as at March 31, 2010 and one customer representing 80% of total trade receivable as at December 31, 2009.

The Company derives significant revenue from certain customers. As at March 31, 2010 there was one customer representing 74% of the total revenues. As at March 31, 2009, two customers represented 43% and 33% of total revenues respectively.

ii) 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.

	As at March 31, 2010				
	Less than 3 months	3 - 6 months	6 months to 1 year	More than 1 year	Total
Accounts payable and accrued liabilities	5,623	-	-	-	5,623
Long-term debt	2,854	258	3,040	10,637	16,789
Advance on revenues from a supply agreement	-	160	584	2,071	2,816
	<b>\$8,477</b>	<b>\$418</b>	<b>\$3,624</b>	<b>\$12,708</b>	<b>\$25,228</b>

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

iii) Market risk:

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

a) 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

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

### b) 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 incurred and revenues generated are in U.S dollar and in sterling pound. Financial instruments potentially exposing the Company to foreign exchange risk consist principally of cash, receivables, accounts payable and accrued liabilities and long-term debt. The Company manages the foreign exchange risk by holding foreign currencies on hand to support foreign currencies forecasted cash outflows and the majority of the Company's revenues are in US dollar and in sterling pound which mitigates the foreign exchange risk.

As at March 31, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated respectively in U.S dollar and sterling pound.

In US dollar	March 31, 2010		December 31, 2009	
	US dollar	CDN dollar	US dollar	CDN dollar
Cash	5,931,040	6,023,564	237,708	248,785
Accounts receivable	34,873	35,417	156,681	163,982
Accounts payable and accrued liabilities	(2,877,473)	(2,922,361)	(3,003,800)	(3,143,778)
Long term debt	(10,018,198)	(10,174,482)	(20,527)	(21,484)
Net exposure	(6,929,758)	(7,037,862)	(2,629,938)	(2,752,495)

  

In sterling pound	March 31, 2010		December 31, 2009	
	Sterling pound	CDN dollar	Sterling pound	CDN dollar
Cash	218,106	336,363	77,374	130,901
Accounts receivable	1,642,728	2,533,416	881,506	1,491,332
Accounts payable and accrued liabilities	(575,140)	(886,980)	(734,495)	(1,242,617)
Advance on revenues from a supply agreement and long-term debt	(2,233,988)	(3,445,256)	(2,348,443)	(3,973,096)
Net exposure	(948,294)	(1,462,457)	(2,124,058)	(3,593,480)

Based on the above net exposures as at March 31, 2010, and assuming that all other variables remain constant, a 10 % depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease or an increase of the net loss of US\$692,976.

A 10 % depreciation or appreciation of the Canadian dollar against the sterling pound would result in a decrease or an increase of the accumulated other comprehensive loss of 94,829 pound sterling.

The Company has not hedged its exposure to currency fluctuations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

**16. Additional information on the consolidated statement of cash flows:**

	Quarters ended March 31,	
	2010	2009
a) Change in working capital items		
Accounts receivable	\$ (1,286)	\$ 160
Inventories	332	(165)
Prepaid expenses	(81)	55
Accounts payable and accrued liabilities	(1,407)	213
Deferred revenues	135	70
	<b>\$ (2,307)</b>	<b>\$ 333</b>
b) Non-cash transaction		
Unpaid additions to capital assets and licenses and patents	\$ 165	\$ 210
Excess of the interest in the joint venture PRDT over the proportionate share in the consolidated net assets	-	357
Preferred shares retractable at the holder's option	-	343
Unpaid share issue expenses	64	126
Unpaid interests related to the long-term debt	286	198
c) Other cash flow information		
Interests paid	64	2,785
Interests earned	3	32

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

**17. Segmented information:**

The financial information is presented in two different operating segments.

The two operating segments are: Therapeutics and Protein Technology

**Therapeutics:** This operating segment one lead compound, PBI-1402, which address unmet needs of cancer patients undergoing chemotherapy.

**Protein Technology:** This operating segment contains the financial information of these activities:

**BioTherapeutics:** It is the developer of a unique, validated, state-of-the-art solution for plasma fractionation, the Plasma Protein Purification System (PPPS).

**Bioseparation :** It develops and markets bioseparation products based on applications of its patented Mimetic Ligand™ technology.

**Animal Care :** The long term goal is to use the validated PRDT technology for prion reduction in the search for a diagnostic that would certify live cattle as BSE-tested.

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

a) Revenues and expenses by operating segments:

**Quarter ended March 31, 2010**

	<b>Therapeutics</b>	<b>Protein Technology</b>	<b>Corporate</b>	<b>Total</b>
Revenues	-	3,168	-	3,168
Costs of good sold excluding amortization of capital assets	-	981	-	981
Research and development expenses rechargeable	-	191	-	191
Research and development expenses non rechargeable	351	2,549	-	2,900
Administration and marketing expenses	-	192	1,309	1,501
Amortization and write-off of capital assets	27	36	7	70
Amortization and write-off of licenses and patents	32	70	-	102
Loss on exchange rate	-	-	147	147
Gain on disposition of capital assets	(251)	-	-	(251)
Charges related to a guarantee	-	-	180	180
Interest expenses	10	46	414	470
Interest revenues	(3)	-	-	(3)
<b>Net loss</b>	<b>166</b>	<b>897</b>	<b>2,057</b>	<b>3,120</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

**Quarter ended March 31, 2009**

	<b>Therapeutics</b>	<b>Protein Technology</b>	<b>Corporate</b>	<b>Total</b>
Revenues	17	3,830	-	3,847
Costs of good sold excluding amortization of capital assets	-	421	-	421
Research and development expenses rechargeable	-	461	-	461
Research and development expenses non rechargeable	949	2,266	-	3,215
Administration and marketing expenses	-	153	1,149	1,302
Amortization and write-off of capital assets	37	165	10	212
Amortization and write-off of licenses and patents	25	71	-	96
Gain on exchange rate	-	-	(250)	(250)
Interest expenses	20	402	18	440
Interest revenues	(1)	(2)	(12)	(15)
<b>Net loss</b>	<b>1,013</b>	<b>107</b>	<b>915</b>	<b>2,035</b>

b) Revenues by geographic segment <sup>(1)</sup> :

	<b>Quarters ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
United States	\$ 2,730	\$ 3,517
United Kingdom	286	28
Holland	76	-
Austria	71	77
Other countries	6	19
Australia	-	81
Italy	-	108
Canada	-	17
	<b>\$ 3,168</b>	<b>\$ 3,847</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, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

c) Assets by operating segments

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Therapeutics	\$ 3,046	\$ 2,812
Protein Technology	8,301	7,690
Corporate	7,831	582
	<b>\$ 19,178</b>	<b>\$ 11,084</b>

d) Assets by geographic segments

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Canada	\$ 11,004	\$ 3,838
United States	1,445	1,303
United Kingdom	6,729	5,943
	<b>\$ 19,178</b>	<b>\$ 11,084</b>

e) Capital assets and licenses and patents by operating segments

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Therapeutics	\$ 1,724	\$ 1,713
Protein Technology	3,130	3,224
Corporate	101	104
	<b>\$ 4,955</b>	<b>\$ 5,041</b>

f) Capital assets and licenses and patents by geographic segments

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Canada	\$ 1,896	\$ 1,897
United States	1,154	1,096
United Kingdom	1,905	2,048
	<b>\$ 4,955</b>	<b>\$ 5,041</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2010 and 2009

(in thousands of Canadian dollars except for number of shares or as otherwise specified)

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Therapeutics	\$ 67	\$ 213
Protein Technology	152	257
Corporate	3	2
	<b>\$ 222</b>	<b>\$ 472</b>

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Canada	\$ 71	\$ 215
United States	87	63
United Kingdom	63	194
	<b>\$ 222</b>	<b>\$ 472</b>

**18. Post balance sheet events**

On April 1, 2010, the Company paid Camofi the settlement amount of US\$800,000 (CDN\$837,280), referred to in note 12, which concludes the borrower's and the Company's obligations.