KPMG LLP
Chartered Accountants

2000 McGill College Avenue
Suite 1900
Montréal (Québec) H3A 3H8

Téléphone (514) 840-2100
Telefax (514) 840-2187
http://www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of ProMetic Life Sciences Inc. (formerly Innovon Life Sciences Holdings Limited) as at December 31, 1998 and 1997 and as at September 30, 1997 and the consolidated statements of income and deficit and changes in financial position for each of the 12-month periods ended December 31, 1998 and 1997, for the transition year ended December 31, 1998 and for the year ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and as at September 30, 1997 and the results of its operations and the changes in its financial position for the 12-month periods ended December 31, 1998 and 1997, for the transition year ended December 31, 1998 and for the year ended September 30, 1997 in accordance with generally accepted accounting principles.

(signed) KPMG LLP

Chartered Accountants

Montreal, Canada

February 26, 1999

PROMETIC LIFE SCIENCES INC.

(Formerly Innovon Life Sciences Holdings Limited)
Consolidated Balance Sheets

	December 31, 1998	December 31, 1997	September 30, 1997
Assets			
Current assets:			
Cash	$ 51,837	$ 159,644	$ 817,614
Marketable securities (note 2)	4,483,540	398,756	1,075,765
Accounts receivable (note 3)	8,327,414	660,642	701,688
Tax credit receivable	–	161,570	162,204
Scientific research and experimental development tax credit receivable	–	269,280	269,280
Inventories (note 4)	3,139,114	1,332,282	1,202,420
Prepaid expenses	702,860	109,279	21,489
	16,704,765	3,091,453	4,250,460
Capital assets (note 5)	14,373,072	5,167,530	5,131,788
Deferred development costs (note 6)	2,430,271	1,185,073	814,416
Other assets (note 7)	2,866,263	1,986,193	1,919,547
	$ 36,374,371	$ 11,430,249	$12,116,211
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness (note 8 (a))	$ 3,644,200	$ 205,103	$ 642,392
Accounts payable and accrued liabilities	6,239,114	1,723,126	1,524,728
Current portion of long-term debt (note 8)	1,070,832	428,406	378,146
	10,954,146	2,356,635	2,545,266
Long-term debt (note 8)	5,509,219	3,377,439	3,517,971
Non-controlling interest (note 9 (b) (iii) and (v))	–	2,970,943	3,350,296
Shareholders' equity:			
Share capital (note 9)	36,211,229	10,054,207	8,879,206
Deficit	(16,300,223)	(7,328,975)	(6,176,528)
	19,911,006	2,725,232	2,702,678
Commitments (notes 5 (b), (c) and 10)			
Contingency (note 11)			
	$ 36,374,371	$ 11,430,249	$12,116,211

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed) Pierre Laurin, Director

(signed) Daniel Auclair, Director

PROMETIC LIFE SCIENCES INC.

(Formerly Innovon Life Sciences Holdings Limited)
Consolidated Statements of Income and Deficit

	12-month periods ended December 31, 1998	12-month periods ended December 31, 1997	Transition year ended December 31, 1998	Year ended September 30, 1997
			(15 months)	(12 months)
Net sales	$ 10,037,537	$ 2,153,345	$ 10,585,852	$ 2,199,896
Cost of goods sold	7,765,265	3,062,340	8,597,761	3,058,034
	2,272,272	(908,995)	1,988,091	(858,138)
Operating expenses:				
Administrative and marketing expenses	8,646,954	3,566,152	9,522,385	3,323,981
Research and development expenses (note 6)	685,354	185,615	745,033	138,010
Amortization of deferred start-up costs	440,155	366,669	536,790	385,908
	9,772,463	4,118,436	10,804,208	3,847,899
Operating loss before financial expenses	7,500,191	5,027,431	8,816,117	4,706,037
Financial expenses	448,363	280,648	534,472	222,141
Loss before tax credit on loss and non-controlling interest	7,948,554	5,308,079	9,350,589	4,928,178
Tax credit on loss	–	(164,438)	–	(164,438)
Loss before non-controlling interest	7,948,554	5,143,641	9,350,589	4,763,740
Non-controlling interest	(1,474,367)	(1,640,452)	(1,853,720)	(1,581,804)
Net loss	6,474,187	3,503,189	7,496,869	3,181,936
Deficit, beginning of year	7,328,975	3,610,454	6,176,528	2,237,096
Share and warrant issue expenses	2,497,061	215,332	2,626,826	757,496
Deficit, end of year	$ 16,300,223	$ 7,328,975	$ 16,300,223	$ 6,176,528
Loss per share	0.22	0.18	0.27	0.17
Weighted average number of outstanding shares (in thousands)	29,726	19,746	28,215	18,723

See accompanying notes to consolidated financial statements.

PROMETIC LIFE SCIENCES INC.

(Formerly Innovon Life Sciences Holdings Limited)
Consolidated Statements of Changes in Financial Position

	12-month periods ended December 31, 1998	12-month periods ended December 31, 1997	Transition year ended December 31, 1998 (15 months)	Year ended September 30, 1997 (12 months)
Cash provided by (used in):				
Operations:				
Net loss	$ (6,474,187)	$ (3,503,189)	$ (7,496,869)	$ (3,181,936)
Items not involving cash:				
Depreciation of capital assets	501,964	385,701	594,636	398,383
Amortization of deferred start-up costs	440,155	366,669	536,790	385,908
Amortization and write-off of deferred development costs	199,506	153,669	224,934	13,496
Non-controlling interest	(1,474,367)	(1,640,452)	(1,853,720)	(1,581,804)
Net change in non-cash operating working capital items	(4,722,743)	(1,304,070)	(4,700,317)	(1,302,524)
	(11,529,672)	(5,541,672)	(12,694,546)	(5,268,477)
Financing:				
Proceeds from share and warrant issues	26,157,022	1,747,164	27,332,023	6,177,656
Share and warrant issue expenses	(2,497,061)	(215,332)	(2,626,826)	(757,496)
Increase in long-term debt	3,124,376	1,538,969	3,124,376	1,738,969
Repayment of long-term debt	(596,322)	(269,517)	(686,594)	(211,614)
Non-controlling interest	(1,496,576)	–	(1,496,576)	247,788
Advances on royalties	8,522	(195,932)	–	(187,410)
	24,699,961	2,605,352	25,646,403	7,007,893
Investments:				
Additions to tangible capital assets	(7,073,992)	(541,978)	(7,202,406)	(617,311)
Business acquisition (net of cash of $354), (note 17)	(2,784,966)	–	(2,784,966)	–
Deferred development costs (note 6)	(1,444,704)	(763,646)	(1,840,789)	(459,000)
Deferred start-up costs	(1,328,747)	(553,157)	(1,483,506)	(420,323)
Acquisition of rights and licenses	–	–	–	(207,788)
	(12,632,409)	(1,858,781)	(13,311,667)	(1,704,422)
Increase (decrease) in cash position	537,880	(4,795,101)	359,810	34,994
Cash position, beginning of year	353,297	5,148,398	1,250,987	1,215,993
Cash position, end of year	$ 891,177	$ 353,297	$ 891,177	$ 1,250,987

Cash is comprised of cash and marketable securities less bank indebtedness.

See accompanying notes to consolidated financial statements.

The Company, incorporated under the Canada Business Corporations Act, is an integrated pharmaceutical company which develops, manufactures and markets injectable and non-injectable generic products and pharmaceutical protein separation and purification media.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared using accounting principles applicable to a going concern, which assume that the Company will continue its operations in the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business.

However, an emerging company assumes that it can expect future profitability and the support of its shareholders and other external funding sources, if applicable. Management is of the opinion that adequate resources will be available to complete the projects under development as at December 31, 1998.

(b) Consolidation basis:

The consolidated financial statements include the accounts of ProMetic Life Sciences Inc. and its subsidiaries.

(c) Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

(d) Marketable securities:

Marketable securities which represent highly liquid investments are carried at the lower of cost and market.

(e) Inventories:

Work in process and finished goods are valued at the lower of cost and net realizable value. Raw materials are valued at the lower of cost and replacement cost. Cost is established using the first in, first out method.

1. Significant accountings policies (continued):

(f) Capital assets:

Tangible assets:

Tangible assets are recorded at cost. Depreciation is provided over the estimated useful lives of tangible assets using the following methods and rates:

Asset	Method	Rate/period
Leasehold improvements	Straight-line	Lease period
Building	Declining balance	5%
Equipment and tools	Declining balance	10% to 30%
Equipment under capital leases	Declining balance	20%
Office equipment and furniture	Declining balance	20%
Computer equipment	Declining balance	30%

Intangible assets:

Rights and licenses include vested rights as well as fees and expenditures incurred to obtain licenses for product manufacturing and marketing.

Depreciation is provided over the useful life of the asset, which varies from 5 to 15 years, using the straight-line method.

(g) Deferred start-up costs:

Expenditures incurred during the pre-operating period of a new commercial production facility, are deferred and amortized on a straight-line basis over a period not exceeding five years.

(h) Deferred development costs:

Development costs of new products and processes, which are considered technically and financially feasible, are stated at cost less related research and development tax credits and grants. These costs are amortized from the start-up date of commercial production, based on sales. Should the Company determine that the unamortized balance is in excess of recoverable amounts, the excess will be charged to income for the year.

(i) Revenue recognition:

Revenues are recorded at the time of shipment of product, and are presented net of a provision for estimated returns and rebates.

1. Significant accounting policies (continued):

(j) Scientific research and experimental development expenses:

Research and development expenditures are charged to income in the year in which they are incurred, net of related tax credits. Research and development expenses include the costs related to customer paid research and development orders. The related revenue is included in sales.

(k) Foreign currency translation:

Foreign currency transactions are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at year-end exchange rates. Non-monetary items are translated at historical exchange rates. Expense items are translated at the exchange rate on the transaction date or at average rates of exchange prevailing during the period. Any resulting exchange gains or losses are included in the income statement.

2. Marketable securities:

	December 31, 1998		December 31, 1997		September 30, 1997	
	Cost	Market	Cost	Market	Cost	Market
Commercial paper (note 8 (a))	$4,478,790	$4,478,790	$ 398,756	$ 398,756	$ –	$ –
InvesNat Corporate Cash Management Fund	–	–	–	–	784,351	784,351
Banker's acceptances, Bank of Montreal	–	–	–	–	291,414	291,414
Other	4,750	4,750	–	–	–	–
	$4,483,540	$ 4,483,540	$ 398,756	$ 398,756	$1,075,765	$1,075,765

Commercial paper represents notes issued by Canadian corporations and rated R-1 High by Dominion Bond Rating Services.

3. Accounts receivable:

	December 31, 1998	December 31, 1997	September 30, 1997
Trade	$ 7,749,541	$ 412,892	$ 499,200
Receivable - company under control of shareholders	95,363	95,363	79,676
Sales taxes receivable	398,604	74,841	88,528
Other	83,906	77,546	34,284
	$ 8,327,414	$ 660,642	$ 701,688

4. Inventories:

	December 31, 1998	December 31, 1997	September 30, 1997
Raw materials	$ 1,362,997	$ 799,837	$ 838,342
Work in progress and finished goods	1,776,117	532,445	364,078
	$ 3,139,114	$ 1,332,282	$ 1,202,420

5. Capital assets:

			December 31, 1998
	Cost	Accumulated depreciation	Net book value
Land	$ 129,019	$ –	$ 129,019
Leasehold improvements	845,056	53,039	792,017
Building	5,971,758	262,298	5,709,460
Equipment and tools	5,123,709	776,379	4,347,330
Equipment under capital leases	48,663	22,126	26,537
Office equipment and furniture	213,749	46,991	166,758
Computer equipment	680,745	178,592	502,153
Rights and licenses ((a), (b) and (c))	2,580,610	24,845	2,555,765
Construction in progress	144,033	–	144,033
	$15,737,342	$ 1,364,270	$14,373,072

5. Capital assets (continued):

			December 31 1997
	Cost	Accumulated depreciation	Net book value
Land	$ 73,621	$ –	$ 73,621
Leasehold improvements	97,407	26,530	70,877
Building	2,170,594	178,117	1,992,477
Equipment and tools	2,738,076	519,266	2,218,810
Equipment under capital leases	48,663	15,049	33,614
Office equipment and furniture	137,719	27,521	110,198
Computer equipment	214,263	82,020	132,243
Rights and licenses ((a), (b) and (c))	549,493	13,803	535,690
	$ 6,029,836	$ 862,306	$ 5,167,530

			September 30, 1997
	Cost	Accumulated depreciation	Net book value
Land	$ 73,621	$ –	$ 73,621
Leasehold improvements	97,407	22,237	75,170
Building	2,166,877	160,198	2,006,679
Equipment and tools	2,668,661	467,754	2,200,907
Equipment under capital leases	48,663	13,280	35,383
Office equipment and furniture	89,639	20,398	69,241
Computer equipment	207,061	74,725	132,336
Rights and licenses ((a), (b) and (c))	549,493	11,042	538,451
	$ 5,901,422	$ 769,634	$ 5,131,788

---

5. Capital assets (continued):

The depreciation expense amounted to $501,964 and $385,701 respectively for the 12-month periods ended December 31, 1998 and 1997 and $594,636 and $398,383 respectively for the transition year ended December 31, 1998 and for the year ended September 30, 1997.

(a) The Company owns an exclusive worldwide and perpetual royalty-free right to use the know-how, information, technology and patents relating to chromatographic separation media licensed by Cambridge University's Institute of Biotechnology ("IOB") to develop, manufacture, sell and market chromatographic separation media and extraction, separation and purification devices.

(b) Pursuant to a license agreement dated January 31, 1996, Monogel AB granted to ProMetic Pharma Inc. (Pharma) the exclusive worldwide right to use certain know-how, information, technology and patents relating to the development, manufacture and market of monodispersed Agarose. Pursuant to this agreement, Pharma has made an advance of $187,410, bearing interest to Monogel AB and is required to pay to Monogel AB an annual royalty based on sales of Agarose by Pharma. The advance will be reimbursed when the royalties payable will exceed US $150,000 annually. The excess of this amount, subject to an annual limit of US $75,000, will be applied to reduce the balance of the advance. The initial term of this license agreement is 15 years.

(c) Pursuant to a license agreement dated November 9, 1995, Bio-Technical Resources, L.P. (BTR Separations) ("BTR"), a subsidiary of DuPont/Conagra, granted to BioSciences the exclusive worldwide right to use the chromatographic patented technology relating to Teflon® (Teflon is a registered trademark of Dupont) owned or licensed by BTR, to manufacture or have manufactured by a third party and to sell Teflon® beads as part of the chromatography separation media developed by ACL. In addition, BTR granted to BioSciences the non-exclusive right to use the patented technology relating to Teflon® owned by or licensed to BTR to manufacture or have manufactured by a third party and to sell Teflon® beads for other separation processes. Pursuant to this agreement, BioSciences is required to make certain fixed payments to BTR and to pay to BTR a continuing royalty on net sales with respect to all Teflon® beads sold by BioSciences. BTR shall require BioSciences to maintain certain minimum net sales during each contract year, beginning in the fourth contract year, or to pay the equivalent royalty amount in order to maintain the license. This license agreement shall expire on the earlier of (i) November 8, 2010 and (ii) the date on which the last patent expires.

5. Capital assets (continued):

(d) ProMetic Pharma Inc. owns various license agreements under which it has obtained manufacturing rights for pharmaceutical products.

6. Deferred development costs:

	12-month periods ended December 31, 1998	12-month periods ended December 31, 1997	Transition year ended December 31, 1998	Year ended September 30, 1997
			(15 months)	(12 months)
Research and development				
Incurred during the period	$ 1,930,552	$ 795,592	$ 2,360,888	$ 987,724
Tax credits and grants	–	–	–	(404,210)
	1,930,552	795,592	2,360,888	583,514
Less: Amount deferred	1,444,704	763,646	1,840,789	459,000
	485,848	31,946	520,099	124,514
Amortization of deferred development costs	(106,351)	(13,496)	(106,351)	(13,496)
Write-off of deferred development costs	(93,155)	(140,173)	(118,583)	–
Expense for the period	$ 685,354	$ 185,615	$ 745,033	$ 138,010
Deferred development costs:				
Deferred development costs, beginning of period	$ 1,185,073	$ 575,096	$ 814,416	$ 368,912
Deferred developments costs, for the period	1,444,704	763,646	1,840,789	459,000
Amortization of deferred development costs	(106,351)	(13,496)	(106,351)	(13,496)
Write-off for the period	(93,155)	(140,173)	(118,583)	–
Deferred development costs, end of period	$ 2,430,271	$ 1,185,073	$ 2,430,271	$ 814,416

12-month periods ended December 31, 1998 and 1997 and the transition year ended December 31, 1998, with comparative figures for the year ended September 30, 1997

7. Other assets:

	December 31, 1998	December 31, 1997	September 30, 1997
Deferred start-up costs	$ 2,678,853	$ 1,790,261	$ 1,732,137
Advance on royalties (note 5 (b))	187,410	195,932	187,410
	$ 2,866,263	$ 1,986,193	$ 1,919,547

8. Long-term debt:

	December 31, 1998	December 31, 1997	September 30, 1997
Bank loan, bearing interest at prime rate plus 2%, payable in 12 monthly capital installments of $29,050 starting in September 1998 and in 60 monthly capital installments of $35,000, with a final installment of $1,050,000, secured by a first ranking hypothec of $4,200,000 on the building and by a first ranking moveable hypothec of $5,400,000 on all moveable assets, maturing in September 2004	$ 3,383,800	$ 2,000,000	$ 2,000,000
Due to shareholders, bearing no interest, payable from January 2000	1,000,000	118,378	118,378
Balance of sale due to Vétoquinol Canada Inc., bearing interest at 10% and payable in 39 monthly capital installments of $25,000, secured by a moveable hypothec on equipment and tools, maturing in March 2002	975,000	1,275,000	1,350,000
Balance on sale due to Lorus Therapeutics Inc., bearing no interest, payable in 18 monthly capital installment of $30,500, beginning March 1, 1999, maturing in August 2000	549,000	–	–
Balance to carry forward	5,907,800	3,393,378	3,468,378

8. Long-term debt (continued):

	December 31, 1998	December 31, 1997	September 30, 1997
Balance brought forward	$ 5,907,800	$ 3,393,378	$ 3,468,378
Bank loan, bearing interest at prime rate plus 2.5%, payable in 39 monthly capital and interest installments of $9,328, maturing in March 2002	321,528	–	–
Bank note payable, secured by *Fonds d'aide aux entreprises*, non-interest bearing during the exemption period ending in May 2001, thereafter bearing interest at prime plus 2.25%, payable in 60 monthly capital installments of $3,333 beginning June 15, 2001, maturing in May 2006	200,000	200,000	200,000
Loan to small businesses, bearing interest at prime rate plus 3%, payable in monthly capital installments of $4,263, secured by a moveable hypothec of $300,000 on equipment, maturing in July 2001	123,620	174,774	187,561
Obligations under capital leases, payable in monthly installments of approximately $579, maturing at different dates until October 2000	27,103	37,693	40,178
	6,580,051	3,805,845	3,896,117
Current portion of long-term debt	1,070,832	428,406	378,146
	$ 5,509,219	$ 3,377,439	$ 3,517,971

(a) The bank debt is secured by a moveable hypothec on accounts receivable and inventories (Section 427 of the Bank Act of Canada). As at December 31, 1998, the bank debt included a bank indebtedness in US dollars for a total of Cdn$3,012,162 secured by commercial paper of Cdn$3,000,000.

8. Long-term debt (continued):

(b) The principal repayments on capital leases and long-term debt for the next five years are as follows:

	December 31, 1998	
	Capital leases	Long-term debt
1999	$ 11,699	$ 1,070,832
2000	15,404	2,189,785
2001	–	870,517
2002	–	560,844
2003	–	459,996

9. Share capital:

Authorized and without par value:

Unlimited number of Subordinate voting shares, participating, carrying one vote per share

20,000,000 Multiple voting shares, participating, carrying ten votes per share, convertible at the option of the holders or automatically converted upon their sale to a third party by their holder into an equal number of Subordinate voting shares

An unlimited number of Preferred shares, no par value, issuable in one or several series

	December 31,		September 30,
	1998	1997	1997
Issued and fully paid:			
24,782,656 Subordinate voting shares (1997 - 4,059,622)	$ 34,359,006	$ 6,177,656	$ 6,177,656
15,448,863 Multiple voting shares (1997 - 18,200,000)	1,852,223	2,701,550	2,701,550
391,667 warrants (b) (i)	–	1,175,001	–
	$ 36,211,229	$10,054,207	$ 8,879,206

9. Share capital (continued):

(a) Share capital reorganization:

On May 19, 1998, the Company filed Articles of Amendment in order to modify its share capital as presented above by renaming its outstanding Class A and D shares as Subordinate voting and Multiple voting shares respectively and to create an unlimited number of preferred shares.

(b) Share issuance:

(i) As set forth in a prospectus dated August 14, 1998, 861,667 Subordinate voting shares have been issued following the exercise of the 391,667 special warrants by their holders. These special warrants were issued, on December 19, 1997, for a net proceeds of $1,082,751, net of agents' fees and estimated issuance expenses. The Company has granted to the agents a non-assignable option to purchase up to 43,083 Subordinate voting shares at a price of $3 per share at any time until December 19, 1999.

(ii) In August 1998, the shareholders of SPEQ ProMetic Pharma Inc., a non-controlling shareholder of ProMetic Pharma Inc., exercised their rights to exchange their shares of SPEQ ProMetic Pharma Inc. for 3,525,000 Subordinate voting shares of the Company.

(iii) As set forth in a prospectus dated July 10, 1998, the Company issued 8,750,000 Subordinate voting shares at a price of $2 per share, for net proceeds of $15,462,500 after deducting underwriters fees and issuance expenses.

(iv) On May 6, 1998, 9017-3618 Québec Inc., a non-controlling shareholder of ProMetic Pharma Inc., exercised its rights to exchange for one Subordinate voting share of the Company, one Class A share of 9017-3618 Québec Inc., for a total of 975,000 Subordinate voting shares.

The same corporation also exercised its right to purchase 975,000 Subordinate voting shares of the Company at $1.10 per share on April 26, 1998.

(v) During the year, certain shareholders exercised their rights to purchase 650,000 Subordinate voting shares of the Company at a price of $1.10 per share.

(vi) During the year, the Company issued 1,035,250 Subordinate voting shares for a total consideration of $1,635,250.

(vii) During the year, 2,751,137 Multiple voting shares were converted into Subordinate voting shares.

9. Share capital (continued):

(c) Share purchase options and warrants:

The Company established a share option plan for its directors, officers and employees. 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 1,500,000 shares. The Board of Directors has approved that a maximum of 756,911 options be granted for the purchase of 756,911 Subordinate voting shares.

10. Commitments:

The Company has commitments under various operating leases for warehouse space, office space and equipment. The minimum annual payments for the next five years are as follows:

	December 31, 1998
1999	$ 714,740
2000	715,215
2001	646,149
2002	409,928
2003	208,608
2004 and thereafter	54,058
	$ 2,748,698

11. Contingency:

ProMetic Pharma Inc. has an outstanding claim from a former employee for an approximate amount of $180,000. In the opinion of management, this claim is without substantial merit and is not provided for in the financial statements.

12. Financial instruments:

(a) Fair values:

The carrying amount of marketable securities, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximates the fair value because of the near-term maturity of these instruments. The carrying amount of the Company's floating rate long-term debt approximates its fair value because it bears interest at current market floating rates. The balance of sale has an estimated fair value of $1,486,000, $1,311,000 and $1,436,000, respectively as at December 31, 1998 and 1997 and as at September 30, 1997. These amounts have been estimated using discounted cash flow based on the Company's current borrowing rates (prime rate plus 2%) available for similar type of borrowing arrangements with comparable terms and maturities.

(b) Credit risk:

The Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. The Company generally does not require collateral, but may obtain, in many cases, credit insurance coverage from the Export Development Corporation (EDC). For the 12-month period and for the transition year ended December 31, 1998, approximately 45% and 43% respectively of the Company's sales were derived from four American distributors.

(d) Foreign currency rate risk:

The Corporation receives a substantial part of its revenues in US dollars, whereas the majority of its expenses are incurred in Canadian dollars. The Corporation does not possess nor issue financial instruments for hedging or trading purposes.

13. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and , if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to ascertain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. Related party transactions:

The Company entered into the following transactions with related parties:

	12-month periods ended December 31, 1998	12-month periods ended December 31, 1997	Transition year ended December 31, 1998	Year ended September 30, 1997
			(15 months)	(12 months)
Sales	$ –	$ 561,835	$ –	$ 561,835
Research and development expenditures	207,171	–	207,171	–
Deferred development costs	147,503	–	296,764	–
Consulting fees	108,651	–	108,651	–
Raw material purchases	35,912	9,596	63,853	9,596
Rent	–	60,000	–	60,000
Interest on long-term debt	–	150,000	–	150,000

15. Income taxes:

The Company has unutilized tax loss carry forwards and unamortized share issue expenses for which no tax benefit has been reflected in the financial statements. These items may be used to reduce taxable income and income taxes in future years. As at December 31, 1998, amounts and expiry dates are as follows:

	Federal	Provincial
Tax loss carry forwards expiring in 2002	$ 200,529	$ 200,529
Tax loss carry forwards expiring in 2003	2,370,307	831,844
Tax loss carry forwards expiring in 2004	5,422,184	1,976,035
Tax loss carry forwards expiring in 2005	7,479,293	7,479,293
Tax loss carry forwards expiring in 2006	1,799,712	1,799,712
Share issue expenses to be amortized over 2 years	62,268	62,268
Share issue expenses to be amortized over 3 years	454,497	454,497
Share issue expenses to be amortized over 4 years	1,764,964	1,764,964
	$19,553,754	$14,569,142

16. Segmented information:

The Company is an integrated pharmaceutical company which develops, manufactures and markets injectable and non-injectable generic products (Pharmaceutical) and pharmaceutical protein separation and purification media (Biotechnology).

The Company manages the pharmaceutical and biotechnology segments separately, since each one requires different technology, production and marketing practices and strategies. The Company evaluates its operation segments' performance based on operating income or loss before financial expenses.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies.

	12-month periods ended December 31, 1998	12-month periods ended December 31, 1997	Transition year ended December 31, 1998	Year ended September 30, 1997
			(15 months)	(12 months)
Net sales:				
Pharmaceutical	$ 8,058,841	$ 1,985,279	$ 8,568,124	$ 2,035,937
Biotechnology	1,795,992	118,016	1,830,863	103,683
Other	182,704	50,050	186,865	60,276
	10,037,537	2,153,345	10,585,852	2,199,896
Operating loss before financial expenses:				
Pharmaceutical	4,944,758	3,120,955	5,759,655	3,073,296
Biotechnology	1,545,231	1,388,779	1,891,488	1,261,935
Corporate and other	1,010,202	517,697	1,164,974	370,806
	7,500,191	5,027,431	8,816,117	4,706,037
Assets:				
Pharmaceutical	27,083,951	9,913,487	27,083,951	9,484,771
Biotechnology	3,734,369	999,659	3,734,369	2,631,440
Corporate and other	5,556,051	517,103	5,556,051	–
	36,374,371	11,430,249	36,374,371	12,116,211
Addition to capital assets:				
Pharmaceutical	6,791,752	503,287	6,881,906	583,472
Biotechnology	2,806,398	9,326	2,836,775	7,585
Corporate and other	109,356	29,365	117,239	26,254
	9,707,506	541,978	9,835,920	617,311
Depreciation:				
Pharmaceutical	459,672	380,518	549,736	394,303
Biotechnology	27,787	4,223	28,890	3,120
Corporate and other	14,505	960	16,010	960
	501,964	385,701	594,636	398,383

16. Segmented information (continued):

Sales by geographic segment are as follows:

	12-month periods ended December 31, 1998	12-month periods ended December 31, 1997	Transition year ended December 31, 1998	Year ended September 30, 1997
			(15 months)	(12 months)
United States	$ 8,130,405	$ 732,137	$ 8,256,965	$ 681,968
Canada	1,907,132	1,421,208	2,328,887	1,517,928
	$10,037,537	$ 2,153,345	$10,585,852	$ 2,199,896

Assets by geographic segment are as follows:

	December 31, 1998	December 31, 1997	September 30, 1997
			(12 months)
Canada	$23,487,660	$10,799,009	$11,774,161
United States	9,508,674	631,240	342,050
United Kingdom	3,378,037	–	–
	$36,374,371	$11,430,249	$12,116,211

17. Business acquisition:

Effective November 1, 1998, the Company acquired all the outstanding shares of Affinity Chromatography Limited, the non-controlling shareholder of ProMetic BioSciences Inc., by the issuance of 1,200,000 Subordinate Voting Shares. The Company now owns the worldwide rights to the proprietary protein purification technology. The Company completed this transaction in January 1999. The acquisition was accounted for using the purchase method. Operating results from the effective date of acquisition are included in these financial statements.

Details of the acquisition are as follows:

Fair value of net assets acquired:	
Current assets	$ 1,313,898
Capital assets	2,633,514
Current liabilities	(915,940)
Long-term debt	(246,152)
	$ 2,785,320

Cash consideration	$ 385,320
Issuance of shares	2,400,000
Total consideration	$ 2,785,320

18. Comparative figures:

Comparative figures have been reclassified in order to conform with the current year's presentation.