ProMetic

FOCUS
ON REAL VALUE

2003
ANNUAL
REPORT

COMPANY PROFILE

ENABLING A WORLD OF BETTER HEALTH FOR ALL

ProMetic Life Sciences Inc. is a leading international biopharmaceutical company specializing in research, development, manufacture and commercialization of products and applications for the biopharmaceutical industry. Its proprietary platform technologies are essential to the manufacture and development of therapeutics, the elimination of pathogens, proteomics, diagnostics and large-scale drug purification.

ProMetic is currently focused on two main goals: the first being to use its Mimetic Ligands™ core technology to enable further improvements to well-established therapies and create better and more efficient technologies for new drugs and disease treatments. The second focus consists of further leveraging its expertise in protein therapeutics and medicinal chemistry, by developing proprietary value-added drugs and therapies in the fields of cancer, inflammatory/auto-immune and infectious diseases. In doing so, ProMetic will enhance the lives of people living in developed and developing countries around the world, while at the same time creating ethical financial opportunities for its shareholders.

ProMetic is in a unique position in that it has a large number of diverse partnerships with some key companies in the global biotechnology and pharmaceutical industries and therefore, can potentially generate revenues from a number of diverse sources. These include the sale of proprietary therapeutics, pathogen removal devices and bioseparation media, as well as royalties and milestone payments from products sold by partners who use ProMetic's proprietary technology in their manufacturing processes. Clinical development and marketing risks are shared through partnerships with multinational companies.

Founded in 1994, ProMetic continues to expand and is comprised of 109 employees with R&D facilities in Montreal (Canada) and Cambridge (UK), manufacturing facilities in Canada and in the UK, and a marketing presence in Europe, the USA and Japan.

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PRODUCT PIPELINE

INFLAMMATION AND AUTO-IMMUNE DISEASES

Compound	Therapeutic Target	Status
rAAT	Atopic dermatitis (AD)	Phase II
rAAT	Psoriasis and other dermatological indications	Pending Phase II
Lead candidates (anti-TNFα)	Rheumatoid arthritis	Pre-clinic
Lead candidates (anti-TNFα)	Systemic lupus erythematosus (SLE)	Pre-clinic
PBI-1101	Interstitial cystitis (IC)	Pre-clinic

CANCER

Compound	Therapeutic Target	Status
PBI-1402	Reduce toxicity of chemotherapy and radiotherapy	Phase I
PBI-1393	Increase efficacy of chemotherapy	Pre-clinic

ENABLING TECHNOLOGY

Pathogen Detection & Removal
("PRDT" joint venture with American Red Cross)

- BSE/TSE (mad cow disease)
- Viruses

Plasma Protein Recovery & Purification

- Plasma-derived proteins (American Red Cross)
- Downstream processing (Biotechnology Research Institute (BRI))
- Recombinant proteins (eg. Aventis, NovoNordisk, Menarini, Serono, etc.)

Medical Devices

- Mitradep® (Mitra)
- Glycosal™ (Provalis)

KEY HIGHLIGHTS 2003

CLINICAL DEVELOPMENTS

- *Recombinant Alpha 1-antitrypsin ("rAAT")* in Phase II clinical study for atopic dermatitis
- Authorization from Health Canada for an oral dose safety and efficacy study of PBI-1402 in healthy human volunteers
- Filing of additional patents for niche indications following positive results with PBI-1402 on human cell culture
- Discovery of new lead candidates and important milestone thresholds in pre-clinical studies

ENABLING TECHNOLOGIES

- Agreement with Hemosol Inc. to implement the novel ProMetic/American Red Cross plasma protein purification process for North America—Upfront and milestone payments, plus royalties on sales
- Pathogen Removal and Diagnostic Technologies Inc. presents the world's first product to reduce the infectivity of transmissible spongiform encephalopathies, which are responsible for the transmission of Creutzfeldt-Jakob disease
- Alliance to set up a biopharmaceutical company in Tunisia which will manufacture and commercialize affordable drugs for a market of over 500 million people
- Alliance with *The National Research Council's Biotechnology Research Institute* to provide a fully integrated service to biotech and pharmaceutical companies for the development and scale-up of therapeutic protein production
- Alliance with the American Red Cross to co-develop a purification process to improve the recovery yield of valuable therapeutic proteins from plasma

CORPORATE STRUCTURE

- Successful equity financing totaling $20 million (plus $3 million with the exercice of the over allotment option in January 2004)
- Experienced managers and scientists joined the company to support therapeutic progress and accelerate manufacturing expansion

In 2003, ProMetic focused on its key value driver projects and achieved major strategic milestones. Its two lead drug candidates, *Alpha 1-antitrypsin ("rAAT")* and PBI-1402, have advanced in clinical trials designed to demonstrate their efficacy.

As for its enabling technologies, ProMetic agreed to license its technologies to produce and market affordable drugs, presented the world's first prion removal product and concluded an agreement for the use of its improved plasma protein recovery system.

These five breakthroughs will lead the way to more intensive marketing activities and strong revenue growth in the years ahead.

Pierre Laurin
Chairman,
President and Chief
Executive Officer

It is my pleasure to update you on the major milestones achieved by ProMetic during 2003.

Significant Clinical Progress

In 2003, our therapeutic team did a remarkable job of advancing the clinical development of our two lead compounds and selecting other drug candidates as next-stage products to advance to clinical studies.

A phase II study has been initiated for recombinant *Alpha 1-antitrypsin* ("rAAT") topical gel. This study is underway in four Canadian centers and is designed to demonstrate the gel's efficacy and safety in the treatment of Atopic Dermatitis. Over 15 million people in North America are affected by this condition. Following completion of the phase II study, we expect to pursue the clinical development of rAAT, develop further data for other indications and finalize a business strategy to develop other sources of revenue from this compound.

In 2003, impressive pre-clinical data were generated with PBI-1402, leading to the filing of several additional patents. This compound has the ability to protect selective stem cells in bone marrow and reduce the side effects of chemotherapy and radiotherapy. In early 2004, a study on the safety and efficacy of an oral dose of PBI-1402 was initiated with healthy human volunteers at the Hôpital Maisonneuve-Rosemont, in Montreal (Canada). We are very optimistic about this compound, which will also allow for alternative strategies in niche indications.

ProMetic further advanced pre-clinical studies to identify and prepare new lead compounds for clinical trials. For example, the drug discovery platform led to the identification of a very promising and novel therapeutic approach to treating inflammatory/auto-immune diseases such as rheumatoid arthritis. In fact, Dr. Christopher Penney's team has developed lead drug candidates that demonstrate in vivo therapeutic activity similar to that of an existing blockbuster compound. Key advantages of these lead candidates include the fact that they would be orally active, less expensive and better tolerated than standard therapies.

Groundbreaking Agreements

In early 2003, ProMetic entered into a second alliance with the American Red Cross aimed at improving the recovery of therapeutic proteins from human plasma. This alliance achieved a key milestone in 2003 with the agreement entered into with Hemosol Inc., which agreed to in-license our improved recovery technology in return for upfront and milestone payments and royalties of 5% to 8% on net sales. Hemosol's new manufacturing facility, designed to handle the commercial production of blood proteins, will greatly speed up the development process of Canada's first plasma fractionation facility.

Pathogen Removal and Diagnostic Technologies Inc. ("PRDT"), our first joint venture with the American Red Cross, develops systems to remove and detect viruses and prions that can be found in biologically derived products. In November 2003, PRDT announced at the European Plasma Fractionation Association Conference in Scotland, the world's first prion reduction system for industrial processes, which is applicable to any type of biological material. Mad cow disease made the news on several occasions in 2003. Cows afflicted with this disease were discovered in Canada and the United States, seriously impacting beef exports of these countries. In addition, the British government identified a first possible case of transmission through blood transfusion of fatal Creutzfeldt-Jakob disease, the human form of mad cow disease. The growing concerns about biologically transmitted diseases clearly validate PRDT's mission and the timeliness of the launch of its first pathogen removal product.

In October 2003, ProMetic also entered into an alliance to set up a biopharmaceutical company in Tunisia that will manufacture and commercialize affordable high-value drugs for 500 million people in Africa, the Middle East and parts of Europe. We are particularly proud, since this is the world's first technology transfer of its kind for the manufacture of biopharmaceutical products by emerging countries.

Meanwhile, we remained very active with numerous biotechnology and pharmaceutical companies that require our technologies and expertise to develop highly efficient protein expression and purification systems. To this end, we concluded, in September 2003, a strategic alliance with The National Research Council's Biotechnology Research Institute—Canada's largest biotechnology R&D center with over 800 employees—to provide a fully integrated service for the development and scale-up of therapeutic protein production for biopharmaceutical companies.

The Resources to Succeed

Year after year, ProMetic is becoming a stronger company with an increasingly bright future. The year 2003 was particularly good, since we advanced our therapeutic lead compounds and concluded strong agreements for the use of our technologies.

We also strengthened our financial and human resources to ensure our sustained progress with a financing totalling $20 million in gross proceeds plus $3 million with the exercice of the over allotment option in January 2004. We also recruited experienced managers and scientists such as Mr. Claude Camiré, Vice President, Corporate Development; Mr. Claude Lambert, Vice President, Finance and Administration; Mr. Victor Bornsztejn, Global Sales and Marketing Manager; and Dr. Christopher Bryant, Project Director – Plasma-Derived Products, and promoted experienced scientists such as Dr. Christopher Penney, Chief Scientific Officer – Therapeutic and Dr. Steven Burton, Chief Scientific Officer – Enabling Technology.

"ProMetic continues to focus on product development, targeting large and unsatisfied markets where therapies are in limited supply or economically burdensome, be they in emerging markets or developed countries."

“We are very proud to have achieved in 2003 alone three world firsts that are in keeping with our mission of helping to create a healthier world.”

The 2004 financial year will again see major developments arising out of both our Therapeutic and Enabling Technology Business Units. Efficacy results of the clinical trials for each of our two lead compounds are expected in 2004. In keeping with ProMetic’s mission, both compounds target billion-dollar, unsatisfied markets where therapies are in limited supply or economically onerous. These pivotal clinical milestones will determine the different development strategies available to us, including co-development and licensing opportunities.

With commercial breakthroughs achieved in the past financial year, ProMetic is now well positioned to offer plasma separation and biopharmaceutical manufacturing solutions to other clients.

As well, we are aggressively pursuing opportunities to license our technologies to different parties that wish to become self-sufficient in the provision of plasma-derived therapeutics or to improve their manufacturing yield. The potential market is huge, since many countries and regions still rely on external sources of supply, such as Canada, Latin America, the Middle East, India, Africa and several Eastern European and Far Eastern countries.

Finally, our Enabling Technology Business Unit continues to co-develop products with its partners. As some of these opportunities are nearing commercial status, this will also translate into recurring revenue growth.

I wish to take this opportunity to thank our clients and partners for their confidence in ProMetic. I would also like to express my gratitude to our employees for their commitment to achieving our milestones and commercial objectives. Together, we focus on creating real business opportunities that generate real shareholder value. Finally, I wish to thank our shareholders for their unflagging support. You can rest assured that we will make every effort to optimize the value of your investment. Creating a successful and profitable biotechnology company is a long and demanding process. ProMetic is well on the way to achieving this goal, and 2004 will prove to be another year marked by major advances.

Thank you.

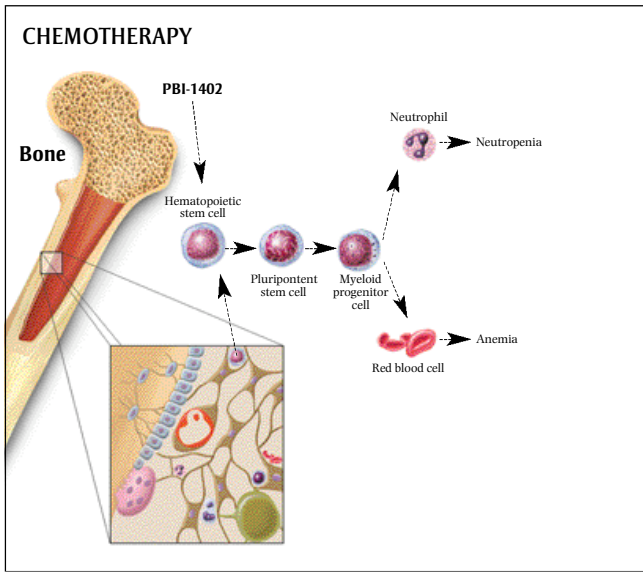
Pierre Laurin
Chairman, President
and Chief Executive Officer

Cancer is the 2nd leading cause of death in developed countries

Lead compound PBI-1402 in clinical trial to help reduce the side effects of chemotherapy on bone marrow

Cancer

In North America, cancer is the second-leading cause of death after heart diseases, and it is anticipated that with the aging population, cancer will soon become the number one cause of death. Traditional treatments for cancer involve surgery, radiotherapy and chemotherapy, however new therapies have emerged which either complement current standard treatments by ***reducing toxicity*** and ***increasing efficacy*** or which are more specific in ***targeting cancer cells.*** ProMetic's long-standing interest and investments in the cancer field have led to three recent and important advances.

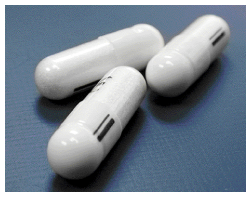


As a side effect, chemotherapy causes Neutropenia, which is the reduction of neutrophils, or white blood cells, and anemia, which is the reduction of red blood cells. PBI-1402 has been demonstrated to promote the formation of neutrophils.

> "Health Canada approved the beginning of Phase I clinical trial for PBI-1402, the results of which are expected during the 2004 financial year."

Reducing Toxicity

In the second quarter of 2003, positive results with PBI-1402 on human cell culture led to the filing of additional patents and a recommendation by ProMetic's Clinical Advisory Committee to proceed with efficacy and safety studies. In fact, PBI-1402 was demonstrated to promote the formation of white blood cells in bone marrow. As a side effect, chemotherapy causes neutropenia, which is the reduction of neutrophils, a certain type of white blood cells that acts as the first line of defense against viruses and bacteria. Believed to be a potent activator of neutrophils, PBI-1402 is a low molecular weight synthetic compound that is orally active, unlike most other drugs in this field which must be injected. In early 2004, Health Canada approved the beginning of Phase I clinical trial for PBI-1402, the results of which are expected during the 2004 financial year.



PBI-1402 is a low molecular weight synthetic compound, that is orally active, unlike most other drugs in this field which must be injected.

Increasing Efficacy

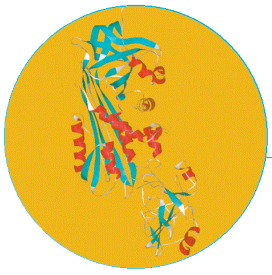
ProMetic is also pursuing activities to strengthen its product pipeline in this field. In 2003, the Therapeutic Unit furthered Prometic's proprietary position on compound PBI-1393 and demonstrated its ability to increase the effect of chemotherapy on human cells. In view of the role of cytotoxic T lymphocytes (CTL) in controlling micrometastatic tumors, and the significant effect of PBI-1393 on CTLs, this drug shows great potential in combination therapy setting. ProMetic is scaling up the manufacture of GMP material for upcoming clinical studies.

Targeting Cancer Cells

In 2003, ProMetic also concluded an exclusive worldwide agreement with Mitra Medical Technology AB of Sweden for the manufacture and supply of the key component of Mitradep®. Representing the culmination of a six-year joint development program between the two companies, Mitradep® is used for extracorporeal removal of tumor-specific cytotoxic antibodies administered as part of cancer treatment regimes. Mitradep® is currently undergoing final regulatory approval in Europe and is targeting a US$400 million world market.

Over 15 million people suffer from atopic dermatitis in North America alone

Lead compound rAAT in Phase II clinical trial

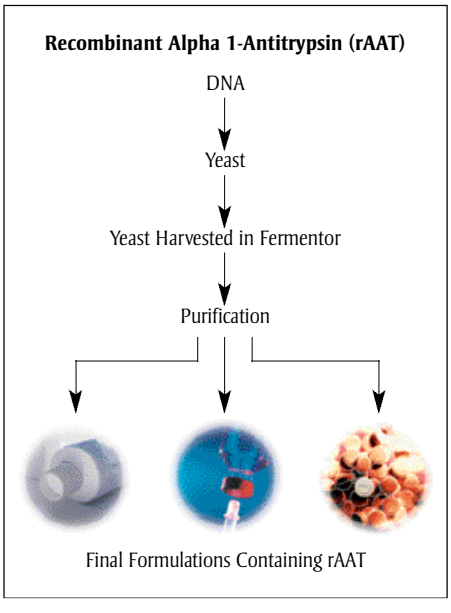


Inflammation

Recombinant Alpha 1-antitrypsin ("rAAT")

ProMetic's goal related to the field of inflammation is to offer advanced and cost-efficient treatment alternatives for unsatisfied medical needs. For instance, for the past ten years it has been known that plasma-derived AAT can successfully treat advanced cases of psoriasis and atopic dermatitis. However, a worldwide shortage in supply has prevented the development of many AAT-based treatments. This opportunity led the Arriva-ProMetic Inc. joint venture to produce the world's first, yeast-derived, recombinant *Alpha 1-antitrypsin ("rAAT");* a product that can be produced in abundant quantity at a lower cost.

A Phase II atopic dermatitis study was initiated in October 2003. Performed in four investigation centers across Canada, this proof of concept study was designed primarily to demonstrate the efficacy of rAAT.



Lead compound, rAAT, in Phase II clinical trial.

Atopic dermatitis is a chronic skin disorder characterized by pruritus, dry skin, and excoriation. This disease affects approximately 6% of the population. In the United States alone, it is estimated that more than 15 million individuals are afflicted with this disease, for which currently available therapies generate sales of over US$2 billion annually.

Inflammatory/Auto-immune Diseases

Auto-immune disease refers to any of a group of disorders or diseases in which tissue injury is associated with a misdirected immune response to body constituents. For example, the unwanted immune response may affect joints (arthritis), skin (psoriasis), the myelin sheath that protects nerves

The world market of therapeutic products for inflammatory/auto-immune diseases such as arthritis, SLE and glomerulonephritis, is expected to reach US$25 billion in 2007.

(multiple sclerosis), kidneys (glomerulonephritis), thyroid (Hashimoto's disease), and pancreas (diabetes type 1). In fact, the list of inflammatory/auto-immune diseases is composed of more than eighty disorders. Perhaps the most well-known of these is arthritis. Most inflammatory/auto-immune diseases are debilitating, often progressive with time and eventually fatal. Systemic lupus erythematosus (SLE), for example, is a chronic disease in which 10-15% of patients die within a decade of diagnosis.

The inflammatory/auto-immune disease market, including arthritis products, is forecast to reach US$25 billion in 2007. This lucrative market combined with the high failure rate amongst traditional drug treatments (poor response to the drug and/or drug toxicity) has led to a fragmented or multidisciplinary approach to the treatment of inflammatory/auto-immune diseases. Current treatments for SLE are not satisfactory It is recognized in the medical community that there is still a need for efficient yet safe drugs for the treatment of inflammatory/auto-immune diseases. Scientists at ProMetic have discovered a new class of orally active compounds which may function as drugs for the treatment of inflammatory/auto-immune diseases. This class of compounds displays biological activity by a novel mechanism not exploited in currently available drugs. Significant activity was demonstrated, for example, in animal models of arthritis and SLE.

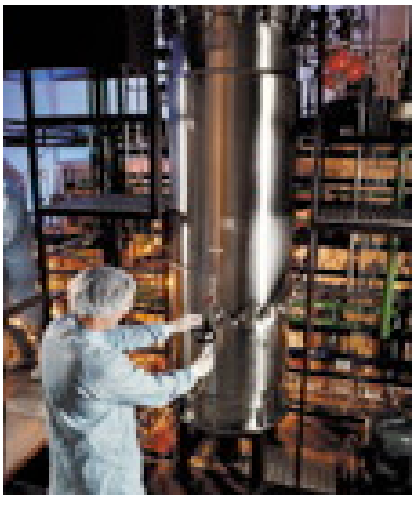
FOCUSED ON UNIQUE AND VALUABLE TECHNOLOGY

Plasma-derived therapeutics represent worldwide annual sales of US$5.6 billion.

Consumer Community	Percent Untreated
Hemophilia	80
Immunodeficiency	94
Alpha 1 deficiency	97

Plasma-Derived Products

Plasma is the residual liquid that remains once the red cells, white cells and platelets have been removed from blood. Plasma protein fractionation plants around the world process more than 25 million liters of plasma annually. Plasma-derived proteins are used to manufacture over 20 therapeutic products and generate annual sales of over US$5.6 billion.



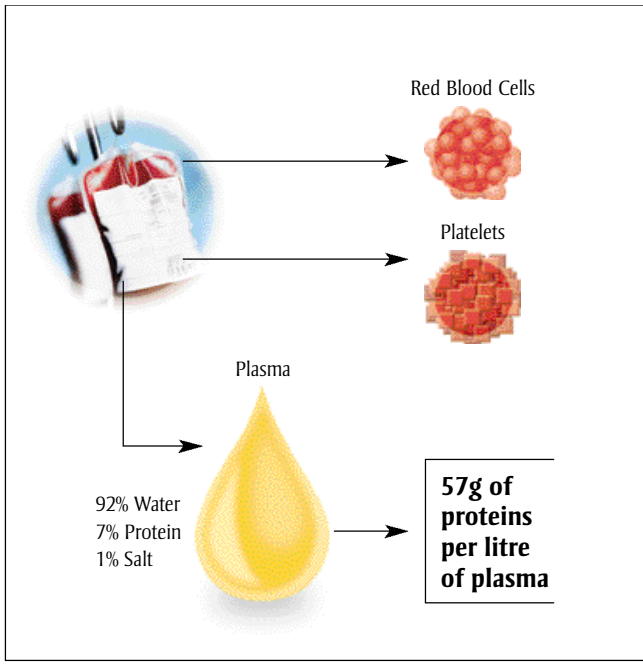
The Hemosol agreement is an important milestone for our alliance with the American Red Cross. The ProMetic/ARC alliance anticipates licensing other countries to allow them to build similar facilities. The ability to supply other licensees with GMP material manufactured in Hemosol's facility will accelerate the construction and validation of these facilities.

Developed during the Second World War, the current plasma fractionation process, "the Cohn process", was first created to extract only one protein: albumin. The Cohn process offers low recovery yields that are far insufficient to meet worldwide demand. For example, 80% of hemophiliacs lack the essential plasma-derived drug Factor VIII, and demand for immunoglobulin is seven times greater than current manufacturing capacity. The plasma fractionation industry is thus faced with the major challenge of increasing the output of existing facilities and building new, more efficient ones.

In early 2003, ProMetic and the American Red Cross teamed up to capitalize on this opportunity. The combination of each organization's proprietary technologies and expertise resulted in a new and unique "Cascade process." This process increases the recovery yield of plasma proteins up to 80% and allows for the recovery of additional new proteins, creating a significant worldwide business opportunity.

In December 2003, Hemosol Inc. became the alliance's first client, as it signed a Memorandum of Understanding in order to in-license the improved recovery technology for North America in return for upfront and milestone payments and 5% to 8% royalties on revenues. In 2004, ProMetic will transfer the technology to Hemosol's plant in Meadowpine, Toronto (Canada)—a $90 million manufacturing facility built to handle the commercial production of blood proteins. The agreement will also generate short-term revenues through manufacturing contracts for other plasma fractionation companies.

This first agreement is an important milestone, since ProMetic anticipates licensing to other countries. The ability to supply licensees with GMP material manufactured in Hemosol's facility will accelerate the construction and validation of facilities in these countries. Key markets that do not yet have their own plasma processing facilities and that rely on external sources of supply include Canada, Latin America, the Middle East, India, Africa and several Eastern European and Far East countries.



Currently, more than 25 million liters of plasma are processed annually producing plasma-derived proteins used to manufacture over 20 therapeutic products.

PRDT scientists confirmed that their filter system can selectively reduce the infectivity of transmissible spongiform encephalopathies from contaminated blood.

Pathogen Removal and Diagnostic Technologies Inc.

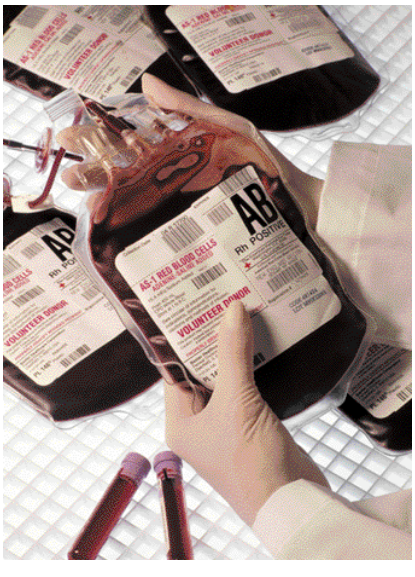
Recent Onset of Creutzfeldt-Jakob Disease

The year 2003 was punctuated by important events relating to mad cow disease and its human variant form, Creutzfeldt-Jakob disease ("vCJD"). Cows afflicted with this disease were discovered in Canada and the United States, seriously impacting beef exports of these countries. But more significantly, the British government announced in December 2003 that it had identified the world's first possible case of transmission of vCJD through blood transfusion, since a blood donor and the recipient had both died of this disease. Until then, this fatal brain disease had been known to be transmitted only by eating meat or meat products of animals carrying bovine spongiform encephalopathy (BSE).

Between 1996 and 2001, it is estimated that some 700,000 infected animals were slaughtered and unknowingly consumed in the UK. The ingestion of prions by humans remains undetected during an incubation period averaging 15 years. Once symptoms appear, death follows within two to twelve months. To date, vCJD has resulted in 143 deaths in the United Kingdom alone.

"The UK just announced, in March 2004, that thousands of people who have received blood transfusions over the last two decades are banned from giving blood because of fears that they could transmit vCJD, the human form of BSE."

In addition, more than 3,000 cases of BSE have been reported outside the UK, in 15 different countries. Given the broad exposure to prions, the incubation period and, now, possible human transmission, vCJD is a serious threat, which reinforces the urgent need for diagnostic and therapeutic solutions.



More than 3,000 cases of BSE have been reported outside the UK, in 15 different countries.

World's First Prion Reduction System

ProMetic's proprietary Mimetic Ligands™ technology to remove prions from blood and other biopharmaceutical products has led to the development of Pathogen Removal and Diagnostic Technologies Inc. ("PRDT"), a joint venture between ProMetic and the American Red Cross. Twenty months of development between these two companies led PRDT to present, in November 2003, the world's first product designed to selectively reduce the infectivity of Transmissible Spongiform Encephalopathies from contaminated blood, as well as from any other type of biological material. This product is a filtering gel sold to companies for industrial applications.

Prion Removal Market

Different markets are worried about vCJD, such as the blood-plasma, biopharmaceutical, food, cosmetics and personal care product industries, all of which use biologically derived products and represent tremendous markets for PRDT. For example, over 30,000 kg of plasma-derived albumin is used annually as a non-active ingredient in drug formulations. Many companies have already decided to remove such albumin from their product formula to diminish the risk of vCJD transmission.

The joint venture is also working on the next generation product, which will be integrated as a CJD filter at donor centers. Since over 30 million units of red blood cells are transfused annually in the US, Europe and Japan, this new avenue also represents a significant market opportunity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

Financial year ended December 31, 2003

The following management's discussion and analysis should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2003 and the notes related thereto. The financial statements were prepared in accordance with Canadian generally accepted accounting principles. Unless otherwise indicated, all figures are expressed in Canadian dollars.

Overview

The number and the scope of the agreements and partnerships executed during the year by ProMetic Life Sciences Inc. or one of its wholly owned subsidiaries ("ProMetic" or the "Company") illustrate the depth of the Company's opportunities.

The Company has a unique portfolio of short and medium term revenue growth opportunities expected from its enabling technology platforms which are just starting their commercial life cycle. On the longer term horizon, its promising therapeutic product pipeline, which includes the Company's two lead compounds, the *recombinant Alpha 1-antitrypsin* ("rAAT") and the PBI-1402, constitutes its principal development source.

The Company's Enabling Technology Business Unit ("ETBU") successfully concluded a second agreement in February 2003 with the American Red Cross ("ARC") pertaining to the purification of plasma-derived proteins; this agreement provided for the planning and execution of two sequential development stages. This agreement promptly led in December 2003 to the strategic partnership with Hemosol Inc., through a binding Memorandum of Understanding ("M.o.U."), to implement this new plasma separation technology within Hemosol's plant, again with the strategic intervention of ARC.

This key agreement with Hemosol allowed both the ARC and the Company to accelerate the eventual commercial implementation of the recovery and purification of plasma-derived proteins. This transaction contributed 2 million shares of Hemosol presented as a $1.8 million consideration in the Company's short term investment, as well as equivalent deferred revenue which will eventually be recognized as revenue when Hemosol and the Company conclude a definitive license agreement. Such shares are not refundable in the event of termination of the M.o.U. More importantly, the Hemosol/ARC strategic relationship really constitutes the business materialization of ProMetic's continued development investment in this division. With one strategic alliance completed during 2003, the Company is now well positioned to build upon the concept of offering its plasma separation technology customers, a proven, efficient and comprehensive solution.

The ETBU division's Pathogen Removal and Diagnostic Technologies Inc. ("PRDT") joint venture company with the ARC developed the first prion reduction product. This key milestone will lead to the launch of a prion-removal adsorbent for bio-process applications.

Finally, this division entered into an alliance to set up a biopharmaceutical company in Tunisia that will manufacture and commercialize affordable high-value drugs for 500 million people in Africa, the Middle East and parts of Europe. We are particularly proud, since this is the world's first technology transfer for the manufacture of biopharmaceutical products by emerging countries. The Company expects to generate revenues from this alliance, in addition to royalties on sales of the company to be created. This alliance did not have any impact on the Company's financial statements during the 2003 financial year.

The Therapeutic Group constitutes the primary development contributor of the Company. The Company's research and development expenditures increased 35% in 2003 compared to 2002.

Firstly, a phase II study has been initiated, by the joint venture Arriva-ProMetic Inc., for rAAT topical gel. This study is underway in four Canadian centers and is designed to demonstrate

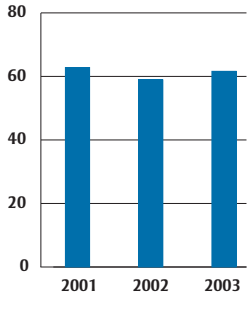
Claude Lambert
Vice President,
Finance and Administration

the gel's efficacy and safety in the treatment of atopic dermatitis.

Secondly, impressive pre-clinical data were generated with PBI-1402, leading to the filing of several additional patents. This compound has the ability to protect selective stem cells in the bone marrow and reduce the side effects of chemotherapy and radiotherapy. In early 2004, a study on the safety and efficacy of an oral dose of PBI-1402 was initiated with healthy human volunteers at the Hôpital Maisonneuve-Rosemont, in Montreal (Canada).

Finally, this business unit further advanced pre-clinical studies to identify and prepare new lead compounds for the clinical studies. For example, the drug discovery platform based on our Mimetic Ligands™ technology led to the identification of a promising and novel therapeutic approach to treating auto-immune diseases such as rheumatoid arthritis. In fact, this unit's Chief Scientific Officer, Dr. Christopher Penney and his team have developed lead drug candidates that demonstrate therapeutic activity *in vivo* similar to that of an existing blockbuster compound. Key advantages of these lead candidates include the fact that they would be orally active, less expensive and better tolerated than the standard therapies.

R&D expenditures
As a % of total expenses
(excluding net interest income)



Operating Results

Important strategic partnerships; Phase II clinical studies initiated for rAAT.

Revenues

Revenues in 2003 were $1.3 million compared to $2.5 million in 2002. This variation was principally due to timing reasons, as the Company is presently pursuing late-stage negotiations with several potential partners; the Company believes these discussions will lead to successful agreements in 2004.

A portion of ProMetic's revenues are derived from collaboration agreements involving the development, the design and the manufacturing of bioseparation processes. The scope and materiality of these types of revenue are difficult to predict as they are inherently non-recurring. Revenues from these types of agreement accounted for 64% of total revenues in 2003 (65% for 2002). Product sales constituted the balance of the revenues.

Operating Expenses

Furthering the therapeutic applications of the rAAT and PBI-1402; broadening the scope of R&D programs with the American Red Cross; selectively targeting development projects in emerging countries.

ProMetic is committed to invest in and support the required R&D activities necessary to fund its ETBU 's development plan as well as the therapeutic R&D program. These investments have kept a superior growth pace as preliminary findings indicate promising results. The Company's R&D expenditures during the year amounted to $13.5 million. These investments have supported the expanded scope and number of R&D projects currently being conducted (both in-house and contracted): a second alliance with the ARC, to develop an improved plasma protein purification process; the evaluation of the *recombinant Alpha 1-Antitrypsin* ("rAAT") gel, which is now in its Phase II clinical study stage since last October; and the discovery of the first prion reduction product issued from the PRDT joint venture with the ARC. For 2004, in addition to the above projects, the Company also expects the recent strategic alliance with Institut Pasteur de Tunis and La Pharmacie Centrale de Tunisie, as well as the strategic agreement with Hemosol Inc., to be important projects drawing on ProMetic's development and technical expertise.

With regards to administrative, marketing and other expenses, the Company expensed an amount of $5.7 million during 2003, unchanged from 2002. The Company has continued to strengthen its organizational structure to support its future growth.

Net Results

ProMetic incurred a net loss of $20.3 million, or $0.23 per share, in 2003, compared to a net loss of $14.1 million, or $0.19 per share in 2002. Supporting details corroborating this loss are provided in the above sections, "Revenues" and "Operating Expenses".

Balance Sheet

Completion of financing round—Capital for growth

The importance of the development and strategic achievements of 2003 (as described above) led to the financing transaction of $20 million concluded in December 2003 and $3 million in January 2004 upon the execution of the over-allotment option by the underwriters. This financing will, amongst other things, enable and support the scale-up and commercialization of the plasma protein purification business, the development of a second PRDT product and the funding of expanded research and development projects.

Short-term assets totaled $28.1 million as of December 31, 2003, compared to $25.9 million in 2002.

Capital assets increased by $0.1 million compared to 2002, after depreciation of $1.0 million. Laboratory equipment for the most part, as well as computers and application development software, constitute the major part of the asset additions. Intellectual Property assets increased by $1.3 million, reflecting the investment made by the Company to its partner, the ARC, to acquire a license necessary for the development of the plasma protein purification business ($0.6 million), as well as contributions made to the Arriva-ProMetic joint venture ($0.7 million) during the year in connection with last year's grant of a permanent and exclusive license by Arriva Pharmaceuticals, Inc.

Deferred development expenses decreased $1.2 million to $2.0 million in 2003, as past investments, made in connection with the development of products now being validated by the ETBU, are being amortized.

The Company's UK subsidiary concluded an irrevocable Memorandum of Understanding ("M.o.U.") with Hemosol, with the intervention of its partner, the ARC; the consideration of 2 million shares of Hemosol received has been recorded as a $1.8 million deferred revenue until the conclusion of a definitive license agreement. Such shares are not refundable in the event of termination of the M.o.U. The market value of this consideration, constituted of Hemosol shares, amounted to $3.1 million as of December 31, 2003.

The increase in general Company activities and the deferred revenue resulting from the Hemosol transaction led to higher current liabilities, to $8.4 million.

Liquidity and Capital Resources

ProMetic enjoyed as productive a year as it could, with the numerous agreements, milestones and alliances it concluded in 2003. It also raised $20 million in gross proceeds (before the over-allotment option) by issuing 10,526,316 subordinate voting shares. Operating cash outflows amounted to $15.8 million in 2003, compared to $12.4 million in 2002, mostly due to the increased investments in its various R&D programs. The net increase in cash and cash equivalents amounted to $10.7 million, compared to $10.8 million in 2002.

Outlook

Further extension of the plasma protein purification business; continued investment in the two lead therapeutic candidates; expansion of manufacturing capacity.

Business conditions and Prometic's positioning in 2003 have created an opportunity context never encountered before. The Hemosol/ARC strategic relationship is the business materialization of ProMetic's continued investment in its ETBU. This agreement also sets up various business opportunities which will carry over this agreement on an international scale and position ProMetic for a revenue appreciation during 2004 and beyond.

The therapeutic portfolio of the Company will take a greater position in 2004, with the expected results of the Phase II clinical study of the rAAT compound for the atopic dermatitis indication, and the further advancement of the clinical studies in cancer applications and inflammatory diseases.

The Company will also optimize the use of its scientific and manufacturing resources through bioseparation development agreements and punctual contract manufacturing projects.

Risks

The information set forth in the management's discussion and analysis of operating results and financial position section of this annual report contains certain statements regarding future financial and operating results, benefits and synergies of transactions with the ARC, future opportunities based on such transaction, discovery and development of products, strategic alliances and intellectual property, and other statements about our future expectations, beliefs, goals and plans, which should be considered to be forward-looking statements.

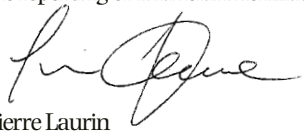
These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond ProMetic's control and difficult to predict. These risks and uncertainties could cause actual results to differ materially from those expressed or implied in such statements and include: general economic and business conditions; the ability to attract and retain qualified personnel; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; adverse results in drug discovery and clinical development processes or failure to complete the pre-clinical and clinical development; the ability to obtain and enforce timely patent and other intellectual property protection for our technology and products; patents liability and other claims asserted against us; commercialization limitations imposed by patents owned or controlled by third parties; dependence upon strategic alliance partners to develop and commercialize products and services based on our work or technology; the ability to complete and maintain such corporate alliances; the requirement for substantial funding to conduct R&D and to expand commercialization activities; decisions and timing of decisions made by health regulatory agencies regarding approval of our technology and products; the competitive environment and impact of technological change, and the continued availability of capital to finance our activities. Additional factors relating to the two transactions with the ARC: the inability to successfully integrate the ARC's technology; the inability to realize anticipated synergies, improved yield and cost savings; the inability to obtain assignment for licenses with third parties; and difficulties or delays in obtaining regulatory approvals to market products and services resulting from the combined companies development efforts.

Management's Report

The accompanying consolidated financial statements for ProMetic Life Sciences Inc. are management's responsibility and have been approved by the ProMetic Life Sciences Inc. Board of Directors. These financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. They include some amounts that are based on estimates and judgments. The financial information contained elsewhere in the Annual Report is consistent with that contained in the financial statements.

To ensure the accuracy and objectivity of the information contained in the financial statements, the management of ProMetic Life Sciences Inc. maintains a system of internal accounting controls. Management believes that this system gives a reasonable degree of assurance that the financial documents are reliable and provide an adequate basis for the financial statements, and that the Company's assets are properly accounted for and safeguarded.

The Board of Directors upholds its responsibility for the financial statements in this Annual Report primarily through its audit committee. The audit committee is made up of outside directors who review the Company's consolidated annual financial statements, as well as management's discussion and analysis of operating results and financial position, and recommend their approval by the Board. KPMG LLP, Chartered Accountants, the external auditors designated by the shareholders, periodically meet with the audit committee to discuss auditing, the reporting of financial information and other related subjects.



Pierre Laurin
Chairman, President
and Chief Executive Officer

Claude Lambert
Vice President,
Finance and Administration

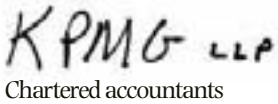
Montreal, Canada
February 25, 2004

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of ProMetic Life Sciences Inc. as at December 31, 2003 and 2002, and the consolidated statements of operations and deficit and cash flows for the years then ended. 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 Canadian 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered accountants

Montreal, Canada
February 25, 2004

CONSOLIDATED BALANCE SHEETS

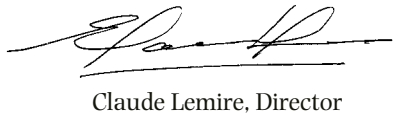
December 31, 2003 and 2002

	2003	2002
	$	$
Assets		
Current assets:		
Cash and cash equivalents	24,052,171	13,390,259
Short-term investments (note 3)	1,800,000	9,508,610
Accounts receivable (note 4)	684,356	1,741,001
Inventories (note 5)	585,488	527,508
Prepaid expenses	958,437	686,188
	28,080,452	25,853,566
Investments and interest in a joint venture (note 6)	3,370,960	2,663,603
Capital assets (note 7)	3,492,515	3,381,220
Intellectual property (note 8)	5,648,541	4,349,822
Deferred development costs	2,027,106	3,209,004
	42,619,574	39,457,215
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	6,068,384	4,200,622
Deferred revenue (note 9)	1,800,000	–
Current portion of long-term debt (note 10)	489,831	150,034
	8,358,215	4,350,656
Long-term debt (note 10)	847,177	200,046
Preferred shares, retractable at the holder's option (note 6 (b))	914,185	382,358
Shareholders' equity:		
Share capital (note 11)	132,616,720	112,919,390
Deficit	(100,116,723)	(78,395,235)
	32,499,997	34,524,155
Commitments (notes 8 and 12)		
Contingencies (note 13)		
Subsequent events (note 19)		
	42,619,574	39,457,215

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Pierre Laurin, Director



Claude Lemire, Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31, 2003 and 2002

	2003	2002
	$	$
Revenues	1,319,385	2,511,663
Research and development expenses	13,500,532	9,965,470
Administration, marketing and other expenses	5,653,933	5,707,640
Depreciation and amortization	2,751,197	1,238,572
	21,905,662	16,911,682
Net interest income	288,596	288,716
Net loss	20,297,681	14,111,303
Deficit, beginning of year	78,395,235	62,459,792
Share issue expenses	1,423,807	1,824,140
Deficit, end of year	100,116,723	78,395,235
Net loss per share	0.23	0.19
Weighted average number of outstanding shares (in thousands)	86,707	75,718

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2003 and 2002

	2003	2002
	$	$
Cash flows from (used in) operating activities:		
Net loss	**(20,297,681)**	(14,111,303)
Adjustments to reconcile net loss to cash flows used in operating activities:		
Depreciation of capital assets	**1,006,792**	665,472
Amortization of deferred development costs	**1,181,898**	240,333
Amortization of intellectual property	**562,507**	332,767
	(17,546,484)	(12,872,731)
Net change in operating assets and liabilities (note 17)	**1,753,034**	508,139
	(15,793,450)	(12,364,592)
Cash flows from (used in) financing activities:		
Proceeds from share issues	**20,147,330**	38,119,124
Share issue expenses	**(1,200,698)**	(2,816,220)
Increase in long-term debt	**1,350,629**	–
Repayment of long-term debt	**(363,701)**	(77,434)
	19,933,560	35,225,470
Cash flows from (used in) investing activities:		
Disposal (acquisition) of short-term investments	**9,508,610**	(9,508,610)
Acquisition of an investment	**(175,530)**	–
Additions to intellectual property	**(1,172,593)**	(1,274,884)
Deferred development costs	**–**	134,494
Additions to capital assets	**(1,638,685)**	(1,428,417)
	6,521,802	(12,077,417)
Net increase in cash and cash equivalents	**10,661,912**	10,783,461
Cash and cash equivalents, beginning of year	**13,390,259**	2,606,798
Cash and cash equivalents, end of year	**24,052,171**	13,390,259

(For supplemental cash flow information, see note 17)

See accompanying notes to consolidated financial statements.

ProMetic Life Sciences Inc. (the "Company") is an international biopharmaceutical company engaged in the research, development, manufacturing and commercialization of products for the biopharmaceutical industry.

1 Changes in accounting policies

The Company has made certain changes in accounting policies to conform to new accounting standards.

(a) Guarantees:

In February 2003, the Canadian Institute of Chartered Accountants issued Accounting Guideline 14 ("AcG-14"), *Disclosure of Guarantees,* which requires that certain disclosures be made by a guarantor about its obligations under guarantees in its interim and annual consolidated financial statements for periods beginning on or after January 1, 2003. A guarantee is a contract or an indemnification agreement that contingently requires the Company to make payments to the other party of the contract or agreement, based on changes in an underlying that is related to an asset, a liability or an equity security of the other party or based on a third party failure to perform under an obligating agreement. It could be also an indirect guarantee of the indebtedness of another party, even though the payment to the other party may not be based on changes in an underlying that is related to an asset, liability or equity security of the other party.

The Company did not enter into agreements containing features that meet the AcG-14 criteria for a guarantee.

(b) Share purchase financing:

Starting January 1, 2003, the Company adopted the new Canadian Institute of Chartered Accountants Emerging Issue Committee No. 132 abstract on *Share Purchase Financing* (EIC-132). This abstract provides interpretive guidance to the accounting requirements for outstanding share purchase loans receivable. The new guidance requires that share purchase loans receivable should be presented as deductions from shareholders' equity unless there is substantial evidence that the borrower, not the Company, is at risk for any decline in the price of the shares and there is reasonable assurance that the Company will collect the full amount of the loan in cash.

2 Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting polices are described below:

(a) Basis of consolidation:

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. as well as those of the two joint ventures Arriva-ProMetic Inc. and Pathogen Removal and Diagnostic Technologies Inc. (hereinafter sometimes collectively referred to as "ProMetic" or respectively as "Company", "PBI", "PBU", "PBL", "A-P", "PRDT") which are accounted for on a proportionate consolidation basis whereby the Company's proportionate share of its joint ventures' revenues, expenses, assets and liabilities are consolidated. All significant intercompany transactions and balances have been eliminated.

(b) Cash, cash equivalents and short-term investments:

Cash and cash equivalents are bank deposits and highly liquid investments purchased with maturity of three months or less. Short-term investments are short-term debt instruments issued by the government of Canada and Canadian financial institutions purchased with maturities of more than three months as well as equity held in a publicly traded Canadian corporation. Short-term investments are carried at the lower of cost and market value.

(c) Inventories:

Work in progress and finished goods are carried at the lower of cost and net realizable value, whereas raw materials are valued at the lower of cost and replacement cost. Cost is determined on a first in, first out basis.

(d) Investments:

The investments are recorded at acquisition cost. When, in management's opinion, there has been a loss in value of an investment other than a temporary decline, the investment is written down to recognize the loss. In determining the estimated realizable value of its investments, management relies on its judgment and knowledge of each investment, as well as on assumptions about general business and economic conditions that prevail or are expected to prevail. These assumptions are limited due to the uncertainty of projected future events.

(e) Capital assets:

Capital assets are recorded at cost. Depreciation is provided over the useful lives of capital assets using the following methods:

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

(f) Intellectual property:

Intellectual property includes patents and vested rights as well as licensing fees for product manufacturing and marketing. Amortization is provided over the useful lives of the intellectual property assets acquired using the straight-line method ranging up to 20 years. Management reviews the valuation and amortization of intellectual property on an ongoing basis, taking into consideration any events and circumstances that may impair its value. The Company assesses impairment by determining whether the unamortized balance may be recovered through undiscounted future cash flows to be derived from the intellectual property over its remaining life. If the carrying value exceeds the amount recoverable, a write-down equal to the excess is charged to the consolidated statement of operations.

(g) Deferred development costs:

Development costs of new products and processes, which are considered technically and financially feasible, are stated at cost less amortization and related research and development tax credits and grants. These costs are amortized from the date of commercialization or use of the product or process, based on sales or internal use of the new product or process. Should the Company determine that the unamortized balance is in excess of recoverable amounts, the excess will be charged to operations for the year.

2 Significant accounting policies (continued)

(h) Revenue recognition:

The Company recognizes revenues from various research and technology agreements when the contracted services are provided and the various conditions, if any, are met and recognizes revenues from the sale of products upon product shipment.

(i) Research and development:

Research expenses are charged to income in the year in which they are incurred, net of related tax credits. Development expenses net of tax credits, if any, are capitalized in accordance with generally accepted accounting principles.

(j) Foreign currency translation:

The Company's foreign subsidiaries are considered as integrated foreign operations. Foreign denominated monetary assets and liabilities of Canadian and foreign operations are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at year-end exchange rates while non-monetary items are translated at historical exchange rates. Expense items are translated at the exchange rates on the transaction date or at average exchange rates prevailing during the year. Exchange gains or losses are included in the statement of operations.

(k) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized in the balance sheet for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Future income tax assets are recognized and a valuation allowance is provided if realization is not considered "more likely than not". Future income tax assets and liabilities are measured using income tax rates expected to apply when the assets are realized or the liabilities are settled. The effect of a change in income tax rates is recognized in the year during which these rates change.

(l) Stock option plan:

The Company maintains a stock option plan, as described in note 11 (b). The Company uses the fair value method to account for all stock-based payments to non-employees that have been awarded on or after January 1, 2002, and to employe awards that are direct awards of stock that call for settlement in cash or other assets, or stock appreciation rights that call for settlement by issuance of equity instruments. No compensation cost has been recognized for all other employee stock-based compensation awards. Any consideration paid by employees upon the exercise of stock options is credited to share capital.

(m) 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, as well as 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. Significant items for which management must make estimates relate to the valuation and assessment of recoverability of the investments, capital assets, intellectual property and deferred development costs. In addition, management is of the opinion that the Company will obtain the resources required from its shareholders and external sources to complete all projects in progress as at December 31, 2003. Reported amounts and note disclosure reflect the overall economic conditions that are most likely to occur and anticipated measures to be taken by management. Actual results could differ from those estimates.

3 Short-term investments

	2003	
	Cost	Market value
	$	$
2,000,000 common shares of Hemosol Inc., quoted on the TSX (HML) (note 9)	1,800,000	3,140,000

	2002	
	Cost	Market value
	$	$
Discount note, 2.55%, maturing in April 2003	1,499,875	1,504,353
Banker's acceptance, 2.45%, maturing in May 2003	556,351	556,458
Treasury bill, 2.72%, maturing in June 2003	4,997,080	5,001,130
Treasury bill, 2,68%, maturing in June 2003	2,455,304	2,459,065
	9,508,610	9,521,006

4 Accounts receivable

	2003	2002
	$	$
Trade	244,806	754,387
Sales taxes receivable	414,675	337,982
Government grants and tax credits receivable	800	37,771
Share purchase loan to an officer (note 11 (e))	–	450,000
Advance to an officer	–	30,000
Other	24,075	130,861
	684,356	1,741,001

5 Inventories

	2003	2002
	$	$
Raw materials	272,881	253,292
Work in progress and finished goods	312,607	274,216
	585,488	527,508

6 Investments and interest in a joint venture

	2003	2002
	$	$
Investments:		
Investment in convertible preferred shares of share capital of Arriva Pharmaceuticals, Inc.	2,281,245	2,281,245
Investment in convertible preferred shares of share capital of AM-Pharma Holding B.V.	175,530	–
Interest in a joint venture:		
Excess of the interest in the joint venture of Pathogen Removal and Diagnostic Technologies Inc. over proportionate share in consolidated net assets	914,185	382,358
	3,370,960	2,663,603

The consolidated financial statements include the Company's proportionate share of the revenues, expenses, assets and liabilities of Pathogen Removal and Diagnostic Technologies Inc. ("PRDT") and of Arriva-Prometic Inc. ("A-P") as follows:

			2003	2002
	PRDT [(a)]	A-P [(note 8 (c))]	Total	Total
	$	$	$	$
Current assets	3,280	56,977	60,257	88,894
Long-term assets	914,185	2,152,252	3,066,437	2,111,301
Total liabilities	914,185 [(b)]	157,173	1,071,358	414,734
Total expenses being net loss	1,982,225	1,070,801	3,053,026	2,033,040
Cash flows from:				
Operations	(1,982,225)	(631,631)	(2,613,856)	(1,971,859)
Investing	–	(670,750)	(670,750)	(733,321)

(a) On April 8, 2002, ProMetic announced the creation of a new joint venture with the American Red Cross and two other partners under the legal name Pathogen Removal and Diagnostic Technologies Inc. ("PRDT") in which the Company owns 26% of the voting shares. PRDT is engaged in the research, development and commercialization of pathogen diagnostic and removal systems.

Under the terms of the joint venture agreement, ProMetic and the American Red Cross will each contribute intellectual property and technical expertise to develop pathogen diagnostic and removal systems. They both equally assume the direct costs of the joint venture. Preferred shares including a 14% cumulative dividend will be issued by PRDT to the Company and to the American Red Cross in consideration of their proportionate shares in direct and indirect costs.

(b) The PRDT joint venture has issued preferred shares in consideration of the proportionate share of each partner in direct and indirect costs. These preferred shares are retractable at the holder's option, provided that PRDT has sufficient cash flows, and include a 14% cumulative dividend effective January 1, 2003. Since the shares issued by the joint venture are retractable at the holder's option, they are considered as debt rather than share capital. Thus, as part of the proportionate consolidation, the Company must acknowledge 26% of the shares issued to the American Red Cross as a debt to a third party.

7 Capital assets

	2003		2002	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
	$	$	$	$
Leasehold improvements	771,908	351,736	601,475	256,894
Equipment and tools	5,232,102	2,906,536	4,542,570	2,219,409
Office equipment and furniture	565,942	235,411	449,634	113,483
Computer equipment	699,048	282,802	561,230	183,903
	7,269,000	3,776,485	6,154,909	2,773,689
Accumulated depreciation	3,776,485		2,773,689	
Net book value	3,492,515		3,381,220	

8 Intellectual property

	2003	2002
	$	$
Cost	7,030,158	5,168,932
Accumulated amortization	1,381,617	819,110
Net book value	5,648,541	4,349,822

(a) PBL owns the rights, title and interest in and to the know-how, information, technology and patents relating to its Mimetic Ligands™ technology. A portion of these rights, title and interest was assigned to PBL by Cambridge University's Institute of Biotechnology in consideration of the payment of continuing royalties; the others having been developed by PBL.

(b) Effective November 9, 1995, PBI has the right to a patented technology permitting the link of Mimetic Ligands™ to a matrix of perfluorocarbons such as Perfluosorb™ beads. This technology is useful in chromatographic applications and for medical devices. This license is subject to the payment of a royalty to Arkion Life Sciences, Inc. on net sales with respect to any products covered by the patents.

8 Intellectual property (continued):

(c) As of April 13, 1999, ProMetic Biosciences Inc. entered into a 50-50 joint venture, Arriva-ProMetic Inc. ("Arriva-ProMetic"), with Arriva Pharmaceuticals, Inc. ("Arriva") for the development of applications relating to serine protease inhibitors as a platform for various pharmaceutical products for dermatological (e.g.: eczema, psoriasis, genital herpes) and gastrointestinal (e.g.: Crohn's disease, irritable bowel syndrome) treatments and urinary tract indications. The first serine protease inhibitor pursued is recombinant *alpha 1-antitrypsin* ("rAAT"), a compound produced in genetically engineered yeast cells.

Arriva has granted to Arriva-ProMetic an exclusive, perpetual license to develop, manufacture and commercialize these serine protease inhibitors, and PBI has granted Arriva-ProMetic an exclusive, perpetual license for the use of its Mimetic Ligands™ purification technology for the indications within the scope of the joint venture. PBI has also undertaken to fund the joint venture to a maximum of US$4 million, of which US$967,402 has been contributed in 2003 for a total of US$3,441,222 (2002: US$2,473,820). PBI will progressively record 50% of its US$4 million contribution as intellectual property in consideration of Arriva's exclusive and perpetual license granted to the joint venture. In 2003, the Company recorded an amount of $670,750 as intellectual property (2002: $733,321) for a total of $2,613,743 (2002: $1,942,993).

(d) On June 6, 2002, PBI acquired for $400,000 a worldwide exclusive license to patents, pre-clinical data and know-how pertaining to three therapeutic compounds (immunomodulators and adjuvants) for human applications. PBI will make further improvements to the compounds and milestone payments are to be made if positive results are achieved upon completion of the main development phases. Furthermore, PBI will pay royalties on the sales of compound-based products.

(e) The purpose of the strategic alliance between ProMetic BioSciences Ltd. ("PBL"), a wholly owned subsidiary of the Company, and the American Red Cross ("ARC") announced in February 2003 is for the co-development of an improved plasma protein recovery system ("Cascade") based on each party's technology and expertise. The Cascade is a novel sequence of successive proven capture steps developed by PBL that is expected to improve both the yield and range of valuable proteins capable of being isolated from human plasma. PBL in its capacity as leader of such project, has managed the development of the Cascade, is licensing-out the right thereto to third party users ("license agreements") and oversees the technological transfer to such licensees. PBL is responsible to bear the initial development costs of Stage 1, the Cascade, now under an out-license mode. Both parties determine the amount of such obligation from time to time. The agreement with the ARC also provides for the development of a second stage to the Cascade. PBL will be collecting revenues deriving from any licensing activities. Such revenues can be comprised of royalties on net sales, lump sum and (or) milestones payments. Upon recoupment of development costs, 25% of the net proceeds will be paid to the ARC. The ARC will pay ProMetic 2% on any net sales of licensed products. On October 1, 2003, PBL acquired for $642,077, from ARC, an exclusive license for access to and use of some intellectual property rights for this plasma protein purification scheme project.

(f) Under the corporate intellectual property management program, employees are entitled to receive royalties based on the sales of certain products submitted to ProMetic BioSiences Inc. ("PBI") and ProMetic BioSciences Limited ("PBL"), two wholly owned subsidiaries of the Company, before joining these companies. These royalties vary between 0.1% and 0.3% of net sales or between 1% and 3% of revenues received by PBI and PBL. These employees also have the exclusive right to commercialize these products should PBI and PBL decide to stop developing and (or) commercializing them, subject to mutually acceptable terms and conditions. As of today, one officer and three employees are eligible to this program.

(g) In the normal course of business, license agreements for the commercialization of intellectual property provide for the payment of royalties ranging generally between 0.3% and 10% of net sales of commercialized products or, as the case maybe, on revenues deriving from sub-licenses, subject to applicable contract terms and conditions.

9 Deferred revenue

On December 4, 2003, ProMetic BioSciences Ltd. ("PBL"), a wholly owned subsidiary of the Company, entered into a binding memorandum of understanding ("MoU") with Hemosol Inc. ("Hemosol"), under which Hemosol shall in-license the novel plasma separation technology ("Cascade process") developed by the Company and its strategic partner, the American Red Cross (see note 8 (e)).

As consideration for entering into the binding MoU and the commencement of implementation activities by the parties, Hemosol unconditionally issued 2,000,000 common shares to PBL (see note 3). These shares are non refundable in the event of termination of the MoU. Hemosol has also agreed to pay PBL a staged license fee of $15,500,000 plus 1,000,000 additional common shares following the execution of a definitive license agreement and upon the achievement of four separate predetermined technical and regulatory milestones. The first milestone will be the execution of a definitive license agreement that will trigger a cash payment of $1,500,000 and the obligation of Hemosol to issue 1,000,000 common shares to PBL. The final payment will consist of $5,000,000 and will be triggered by the receipt of regulatory approval for the commercial sale of the first product produced using the Cascade process. The agreement is structured so that both parties can generate short term revenues before the ultimate milestone is achieved, such revenues deriving from joint development business activities, such as development work to PBL's other licensees worldwide.

In addition to the license fee, the MoU also provides that Hemosol will pay PBL royalty fees of 8% of net sales of products isolated using the Cascade to resellers and a royalty of 5% of net sales of products isolated using the Cascade to end-users.

Consideration received from Hemosol will be deferred until the conclusion of the definitive license agreement.

10 Credit facility and long-term debt

	2003	2002
	$	$
Loan contracted by ProMetic BioSciences Inc., a wholly owned subsidiary, secured by the Company and a first mortgage on the subsidiary's capital assets financed by such loan; bearing interest at 9.5%, payable in monthly instalments of $37,845, due June 2007	1,155,544	–
Capital lease obligation payable in monthly instalments of $14,051, expiring in 2005	181,464	350,080
	1,337,008	350,080
Current portion of long-term debt	489,831	150,034
	847,177	200,046

Also, PBI has a credit facility of which an amount of approximately $800,000 can be used for general purposes and an amount of approximately $1,500,000 can be used to finance equipment acquired up to December 31, 2003.

Payments required in each of the next four years are as follows:

	Loan	Capital lease obligations
	$	$
Year ending December 31:		
2004	353,733	136,098
2005	394,692	57,473
2006	364,309	-
2007	42,810	-
Total payments	1,155,544	193,571
Less amount representing interest (at rates ranging from 9.42 to 9.6%)		12,107
Present value of net minimum capital lease payments		181,464
Current portion of obligations under capital leases		136,098
		45,366

11 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 holder or automatically converted upon their sale to a third party by the holder into an equal number of subordinate voting shares.

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

1,050,000 preferred shares, Series A, non-participating, non-voting, convertible at the option of the holder into subordinate voting shares at $0.50 per share except for unpaid dividends, convertible at a rate equal to the trading average of the subordinate voting shares on the Toronto Stock Exchange during the 20 business days prior to the conversion, preferential cumulative dividend of 12% per year, payable quarterly.

950,000 preferred shares, Series B, non-participating, non-voting, convertible at the option of the holder into subordinate voting shares at $0.60 per share except for unpaid dividends, convertible at a rate equal to the trading average of the subordinate voting shares on the Toronto Stock Exchange during the 20 business days prior to the conversion, preferential cumulative dividend of 12% per year, payable quarterly.

The total authorized preferred shares, Series A and B, were all issued during 2000.

	2003		2002	
	Number	**Amount**	Number	Amount
		$		$
Issued and fully paid:				
Subordinate voting shares	**84,842,937**	**131,503,555**	72,743,722	110,656,225
Multiple voting shares	**13,026,375**	**1,563,165**	13,026,375	1,563,165
Preferred shares, Series A	**–**	**–**	550,000	550,000
Preferred shares, Series B	**–**	**–**	150,000	150,000
		133,066,720		112,919,390
Share purchase loan (note 11 (e))		**(450,000)**		–
Balance, at end of year		**132,616,720**		112,919,390

11 Share capital (continued)

(a) Share issue:

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

	2003		2002	
	Number	Amount	Number	Amount
		$		$
Balance at beginning of year	**72,743,722**	**110,656,225**	54,056,402	70,908,876
Shares issued pursuant to:				
Private placements	**–**	**–**	5,619,370	11,831,332
Public offerings	**10,526,316**	**20,000,000**	9,340,000	25,218,000
Exercise of warrants and options	**93,250**	**147,330**	1,205,200	1,519,792
Conversion of preferred shares	**1,479,649**	**700,000**	2,287,539	1,150,000
Conversion of multiple voting shares	**–**	**–**	235,211	28,225
Balance, end of year	**84,842,937**	**131,503,555**	72,743,722	110,656,225

During financial year 2002, except for shares issued pursuant to the conversion of multiple voting shares and preferred shares, as well as shares issued to an officer for which the Company has issued a share purchase loan, all subordinate voting shares were issued for a cash consideration.

During financial year 2003, 550,000 Class A preferred shares (2002: 350,000) and 150,000 Class B (2002: 800,000) preferred shares were converted into 1,201,988 (2002: 777,438) and 277,661 (2002: 1,510,101) subordinate voting shares, respectively. Except for shares issued pursuant to the conversion of preferred shares, all subordinate voting shares were issued for a cash consideration.

(b) Stock option plan:

The Company has established a stock option plan for its directors, officers and employees or consultants and those of PBL, PBI and PBU. 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 6,000,000 subordinate voting 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 five years and one month from the date they were granted.

		Number of options outstanding	
Year of grant	Exercise price	2003	2002
	$		
1997	1.49 to 1.75	165,502	165,502
1998	2.00 to 3.00	64,000	64,000
1999	1.00 to 2.00	1,603,000	1,639,900
2000	1.35	300,000	300,000
2001	1.00 to 2.00	1,823,000	1,824,000
2002	2.50 to 2.70	224,000	264,000
2003	2.70	113,500	–
		4,293,002	4,257,402

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

	Options	Weighted average exercise price per share
		$
Number of options as at December 31, 2001	4,922,835	1.40
Granted	338,000	2.55
Exercised	(493,900)	1.00
Cancelled	(509,533)	1.76
Number of options as at December 31, 2002	4,257,402	1.49
Granted	285,000	2.70
Exercised	(25,800)	1.00
Cancelled	(223,600)	2.61
Number of options as at December 31, 2003	4,293,002	1.51

The following table summarizes information about stock options outstanding as at December 31, 2003:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$			$		$
1.00 to 1.49	1,932,502	5.60	1.10	1,524,502	1.08
1.50 to 1.75	1,506,000	2.97	1.59	541,200	1.59
2.00 to 3.00	854,500	4.00	2.29	316,400	2.16
	4,293,002			2,382,102	

11 Share capital (continued)

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

The Company applies the settlement method of accounting for stock options granted to employees. Had the compensation cost for the Company's stock option plan been determined based on the fair value at the grant date, the Company's net loss would have been adjusted to the proforma amount indicated below:

	2003	2002
	$	$
Net loss reported	20,297,681	14,111,303
Proforma compensation cost	29,288	79,104
Proforma net loss	20,326,969	14,190,407
Proforma net loss per share	0.23	0.19

The proforma disclosure omits the effect of awards granted before January 1, 2002.

The fair value of each option granted since January 1, 2003, was estimated on the grant date using the Black-Scholes option price model using the following weighted assumptions:

Risk-free interest rate	4.47%
Dividend yield	0%
Expected volatility of share market price	99.7%
Expected life	5 years

The estimated fair value of options granted during the year ended December 31, 2003 is $1.49 (2002: $1.87).

(d) Warrants and other options:

As part of the issue of subordinate voting shares pursuant to public and private offerings, the Company also granted warrants for the purchase of subordinate voting shares.

As at December 31, 2003, the following warrants and other options were outstanding:

Warrants/options	Expiry date	Exercise price
		$
1,578,947	January 2004	1.90
631,578	December 2004	2.19

In 2003, upon exercise of warrants, the Company issued 67,450 (2002: 711,300) subordinate voting shares at a price of $1.80 (2002: $1.44) per share, for total gross proceeds of $121,410 (2002: $1,024,272).

(e) Share purchase loan:

As the result of the adoption of EIC-132, *Share Purchase Financing*, the share purchase loan to an officer was reclassified as a reduction to share capital. The loan bears no interest, is secured by 450,000 subordinate voting shares of the Company and is repayable on or before December 31, 2009.

12 Commitments

The Company has commitments under various operating leases for the rental of office space and laboratories. The minimum annual payments for the coming years are as follows:

	$
2004	967,014
2005	730,339
2006	701,490
2007	670,700
2008	670,700
2009 and thereafter	1,577,202
	5,317,445

13 Contingencies

Following the discontinuation of the generic pharmaceutical business by ProMetic Pharma Inc. ("Pharma"), a former subsidiary of the Company, in 1999, the Company received the two following outstanding claims:

- A guaranteed creditor of Pharma is claiming $2,021,619 from the Company pursuant to guarantees and agreements related to certain credit contracts entered into between this creditor and Pharma. The claim commenced on June 29, 2000.
- Another Pharma creditor instituted a claim against the Company for the recovery of certain amounts due totalling $305,104.

After obtaining representation from their legal counselors, management is of the opinion that it has valid grounds for defense in respect of each claim and no provision related to these matters has been recorded in these consolidated financial statements in that respect. Settlements, if any, will be charged to the statement of operations in the period in which the settlement occurs.

14 Financial instruments

(a) Fair value:

The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximates their fair value because of the near-term maturity of these instruments. The carrying value of the long-term debt approximates its fair value because the implicit interest rate approximates market rates available for similar instruments.

The fair value of preferred shares retractable at the holder's option cannot be determined because these are shares of a private joint venture company at the precommercial stage and because it is not possible to determine in which period these shares may be redeemed.

(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.

14 Financial instruments (continued)

(c) Foreign exchange risk:

The Company derives a substantial part of its revenues in pounds sterling and the majority of its expenses that are not denominated in Canadian dollars are incurred in pounds sterling and in US dollars. The Company does not possess nor issue financial instruments.

15 Related party transactions

The Company entered into transactions with certain directors or companies controlled by them in the ordinary course of business. The expense for the year is $247,324 (2002: $245,741).

16 Income taxes

The following table reconciles the differences between the domestic statutory tax rate and the effective tax rate used by the Company in the determination of the income tax:

	2003	2002
	$	$
Net loss	**(20,297,681)**	(14,111,303)
Basic income tax rate	**33%**	35%
Computed income tax provision	**(6,698,235)**	(4,938,956)
Decrease in income taxes resulting from:		
Unrecorded potential tax benefit arising from current period losses	**3,386,120**	3,815,486
Effect of tax rate differences in foreign subsidiaries	**2,043,939**	1,044,983
Non-deductible items	**1,268,176**	78,487
	–	–

Significant components of the Company's net future income tax balances are as follows:

	2003	2002
	$	$
Future income tax assets:		
Losses carried forward	11,830,873	8,742,837
Share issue expenses	1,123,446	1,093,362
Unused research and development expenses	1,377,028	881,001
Unused tax credits, net of related taxes	–	119,760
Accounts payable and accrued liabilities	200,276	236,430
Deferred revenue	178,392	-
Inventories	–	23,757
Capital assets	5,835	6,379
	14,715,850	11,103,526
Less: valuation allowance	(12,992,742)	(9,758,421)
Net future income tax assets	1,723,108	1,345,105
Future income tax liabilities:		
Accounts receivable	(225,731)	–
Capital assets	(470,976)	(265,513)
Intellectual property	(815,187)	(700,786)
Deferred development costs	(211,214)	(378,806)
Net future income tax assets	–	–

16 Income taxes (continued)

As at December 31, 2003, the deductions and tax losses considered in the computation of the future income tax assets, before the valuation allowance, are as follows:

	Canada		Foreign
	Federal	Provincial	countries
	$	$	$
Research and development expenses, without time limit	4,165,396	5,119,574	–
Losses carried forward expiring in:			
2004	335,396	–	–
2005	553,357	446,032	–
2006	2,415,613	2,237,266	–
2007	2,091,581	2,091,619	–
2008	5,303,339	5,303,339	–
2009	5,763,208	5,763,208	–
2010	10,297,804	10,298,150	-
2012	–	–	483,182
2018	–	–	1,293,982
2019	–	–	482,907
2021	–	–	15,493
2022	–	–	660,547
2023	–	–	1,066,371
Without expiry date	–	–	28,054,940
Share issue expenses	3,621,682	3,621,682	–
	30,381,980	29,761,296	32,057,422

As at December 31, 2003, the Company also had unused tax credits available to reduce future Canadian taxable income of $1,142,978 and expiring between 2009 and 2012. No future income tax asset has been recorded with respect to those tax credits.

17 Additional information

(i) Statements of cash flows:

(a) Net change in non-cash working capital items:

	2003	2002
	$	$
Accounts receivable	**606,645**	(366,842)
Inventories	**(57,980)**	(235,175)
Prepaid expenses	**(272,249)**	(458,095)
Accounts payable and accrued liabilities	**1,476,618**	1,568,251
	1,753,034	508,139

(b) Non-cash transactions:

	2003	2002
	$	$
Unpaid additions to capital asset and intellectual property	1,211,388	1,043,353
Excess of the interest in the joint venture Pathogen Removal and Diagnostic Technologies Inc. over the proportionate share in the consolidated net assets	531,827	382,358
Preferred shares retractable at the holder's option	531,827	382,358
Unpaid share issue expenses	223,109	–
Share purchase loan to an officer	450,000	–
Shares of Hemosol Inc. received as consideration of entering into a binding memorandum of understanding recorded as deferred revenue (notes 3 and 9)	1,800,000	–

(c) Other cash flow information:

	2003	2002
	$	$
Interest paid	76,163	9,131
Interest earned	467,325	222,404

(ii) Statements of operations:

	2003	2002
	$	$
Exchange gain	144,952	16,234
Tax credits against research and development expenses	–	173,070
Interest on long-term debt	95,129	23,792

(iii) Balance sheets:

	2003	2002
	$	$
Tax credits against deferred development costs	–	134,494
Intellectual property capitalized and subject to amortization	1,861,226	1,410,054

18 Segmented information

The Company operates in one reporting segment consisting of research, development, manufacturing and commercialization of a variety of commercial applications from its technology platform.

Revenues [1] by geographic segment are as follows:

	2003	2002
	$	$
United States	203,550	332,336
United Kingdom	811,227	1,291,465
Europe (excluding United Kingdom)	262,706	838,533
Other countries	41,902	49,329
	1,319,385	2,511,663

Net losses by geographic segment are as follows:

	2003	2002
	$	$
Canada	7,934,493	7,259,036
United States	1,639,015	13,715
United Kingdom	10,724,173	6,838,552
	20,297,681	14,111,303

The assets by geographic segment are as follows:

	2003	2002
	$	$
Canada	33,615,988	31,460,699
United States	456,206	712,781
United Kingdom	8,547,380	7,283,735
	42,619,574	39,457,215

The capital assets and intellectual property by geographic segment are as follows:

	2003	2002
	$	$
Canada	5,302,242	4,492,398
United States	97,033	24,079
United Kingdom	3,741,781	3,214,565
	9,141,056	7,731,042

[1] Revenues are attributed to countries based on location of customer.

Additions to capital assets and intellectual property by geographic segment are as follows:

	2003	2002
	$	$
Canada	1,689,018	2,395,209
United States	86,305	6,324
United Kingdom	1,212,032	1,082,212
	2,987,355	3,483,745

19 Subsequent events

(a) In connection with the public offering in December 2003, the underwriters have exercised, on January 16, 2004, their over allotment option in full for 1,578,947 additional subordinate voting shares at $1.90 per share, for gross proceeds of $ 3,000,000.

(b) Subsequent to year-end, the share purchase loan to an officer for an amount of $450,000 was extended to 2009.

20 Comparative figures

Certain 2002 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2003.

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(2) Compensation Committee

(3) Corporate Governance

ADVISORY COMMITTEES

The Company has Committees comprising of scientists with expertise in different areas such as biotechnology, bioprocessing and biopharmaceuticals. The members of these committees are as follows:

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ANNUAL MEETING OF SHAREHOLDERS

Wednesday, May 5, 2004 (11:00 a.m.)
The Montreal Museum of Fine Art
1379 Sherbrooke Street West
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