ProMetic

WE'RE CREATING A HEALTHIER FUTURE

A DECADE OF INNOVATION AND IMPACT

FOUNDED IN 1994, ProMetic Life Sciences Inc. is at the forefront of the biopharmaceutical industry, bringing new technologies and solutions to the challenge of producing high quality, safer, less expensive therapeutics.

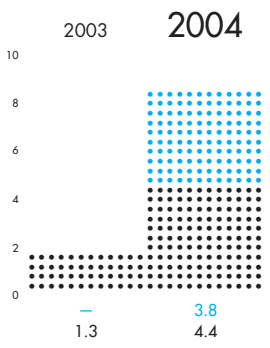
THE COMPANY and its subsidiaries form two divisions, Therapeutic and Enabling Technology. The Therapeutic Division, based in Montreal, has already brought promising compounds into clinical trials and has a number of others with promising results in pre-clinical testing. The Enabling Technology Division, located in Cambridge, England, is responsible for the discovery of the groundbreaking Mimetic Ligand™ technology that has become the base of so many of ProMetic's joint ventures and partnerships, such as those with Serono and GlaxoSmithKline.

OUR NEW COMPOUNDS are set to have a huge impact on the biopharmaceutical industry, offering new treatment solutions in the field of cancer and autoimmune / inflammatory diseases.

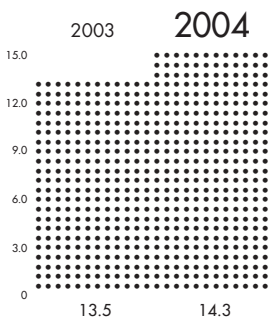
OUR ENABLING TECHNOLOGY is already providing building blocks for new processes that will revolutionize the production of biopharmaceuticals and blood filtration.

WITH 120 EMPLOYEES at research and production facilities in Canada and the UK as well as a marketing presence in the U.S., Europe and Asia, ProMetic is single-mindedly focused on building an organization whose impact will be a healthier future for everyone.

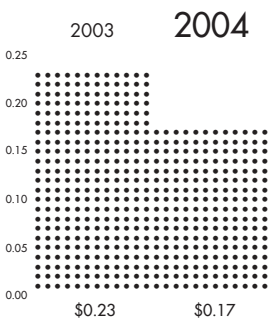
Revenue
(in millions of Canadian dollars)

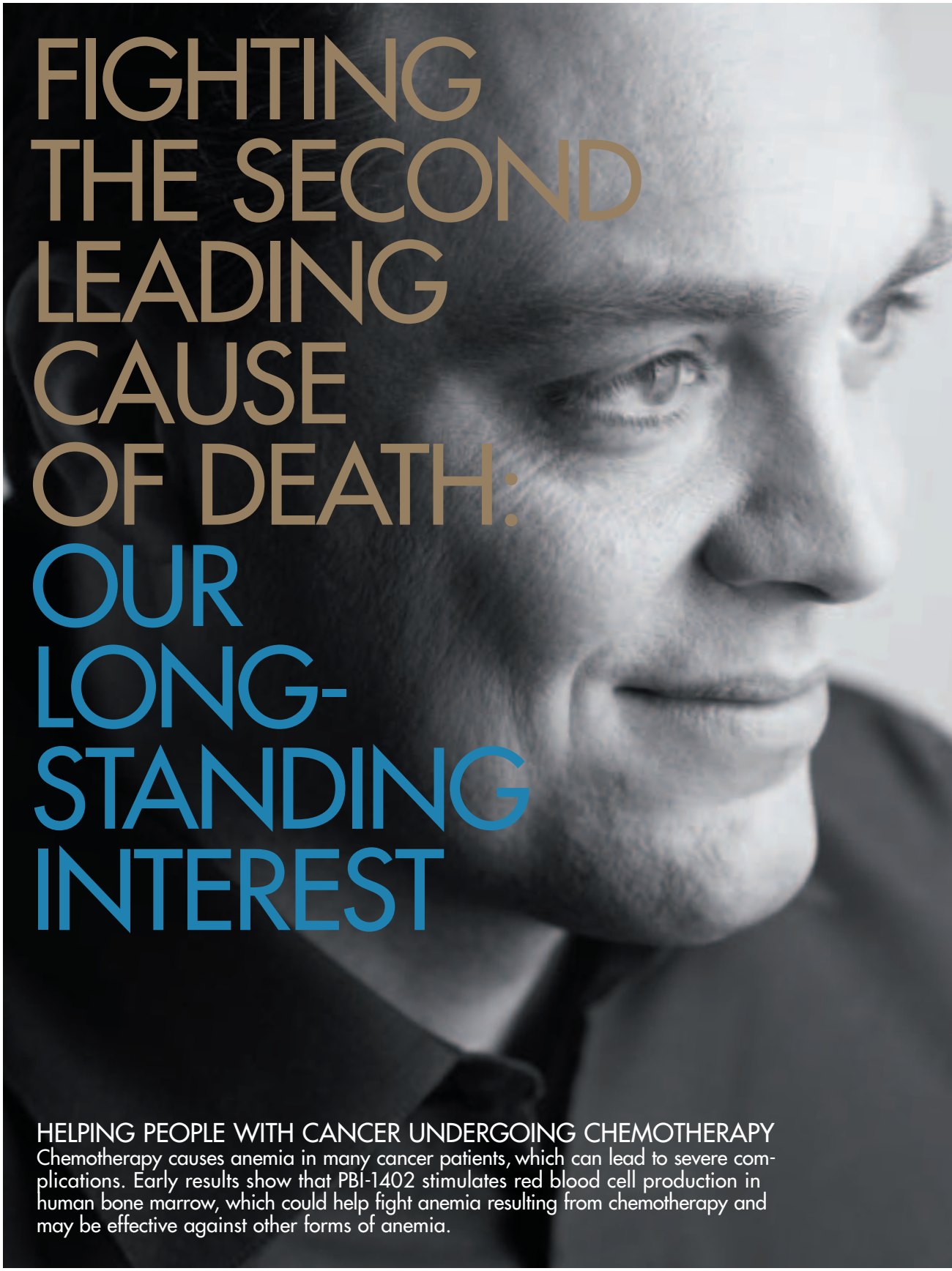


R&D Expenses
(in millions of Canadian dollars)



Net Loss per Share





FIGHTING THE SECOND LEADING CAUSE OF DEATH: OUR LONG-STANDING INTEREST

HELPING PEOPLE WITH CANCER UNDERGOING CHEMOTHERAPY

Chemotherapy causes anemia in many cancer patients, which can lead to severe complications. Early results show that PBI-1402 stimulates red blood cell production in human bone marrow, which could help fight anemia resulting from chemotherapy and may be effective against other forms of anemia.

CHANGING THE DYNAMICS OF THE PLASMA INDUSTRY

A US $5.7 BILLION MARKET

BETTER TECHNOLOGY WILL POWER PROFITS

Together, the American Red Cross, Hemosol and ProMetic are set to change the landscape in the blood plasma industry. The Cascade process developed by ProMetic and the American Red Cross, and made possible by the Mimetic Ligand™ technology, is a significant advance in the plasma products industry, which still relies in large part on a manufacturing backbone process developed 50 years ago. Hemosol is the first licensee of the Cascade technology.

CREATING A SAFER BLOOD SUPPLY

WHAT COULD BE MORE IMPORTANT?

More than 40 million units of blood are collected each year. This year, Pathogen Removal and Diagnostic Technologies (PRDT)[1], and European blood collection systems leader MacoPharma, will roll out the pathogen-removal filter system. This first generation of filters is designed to adsorb abnormal prion proteins in collected blood. The next generation will also target the removal of viruses and other pathogens from blood supply. It adds to the existing measures designed to ensure public safety.

(1) ProMetic's joint venture with the American Red Cross

OUR TECHNOLOGY IN A GLOBAL VISION

Producing less expensive and high quality drugs means life-saving medicines for everyone, including emerging economies such as the Middle East, Africa, India, South America, and parts of Asia. The creation of BioMena S.A. with partners in Tunisia is a first project designed to transfer our technology and drive down the cost of producing biopharmaceuticals for better accessibility by the population. As much as 94 percent of immunodeficient patients and 80 percent of hemophiliac patients worldwide are not receiving appropriate treatment. (1)

MORE AFFORDABLE QUALITY THERAPEUTICS FOR EMERGING ECONOMIES

(1) Bioplasma Forum, June 2004

ALIVE WITH INNOVATION

OUR SCIENCE IS ABOUT CHANGING LIVES

PROTEIN MIMETICS DRIVE DISCOVERY

ProMetic's ability to develop synthetic protein mimetics as an alternative to recombinant proteins is based on the Company's core technology, Mimetic Ligand™, that our Therapeutic Division can use to identify leads for new advances. Already, protein mimetics are under development as treatments for cancer and autoimmune diseases, two important therapeutic areas in which our drug discovery platform is allowing us to make exciting breakthroughs.

THE PROMETIC TEAM

DEDICATED. DYNAMIC. FOCUSED ON RESULTS.

The ProMetic team: Pierre Laurin, Chairman, President and CEO **Lucie Morin**, Vice-President, Human Resources **Claude Lambert**, Vice-President, Finance and Administration **Michelle Laflamme**, Vice-President, Business Development and Communications

MESSAGE TO SHAREHOLDERS BY PIERRE LAURIN

DELIVERING ON PROMISES AND CREATING NEW OPPORTUNITIES

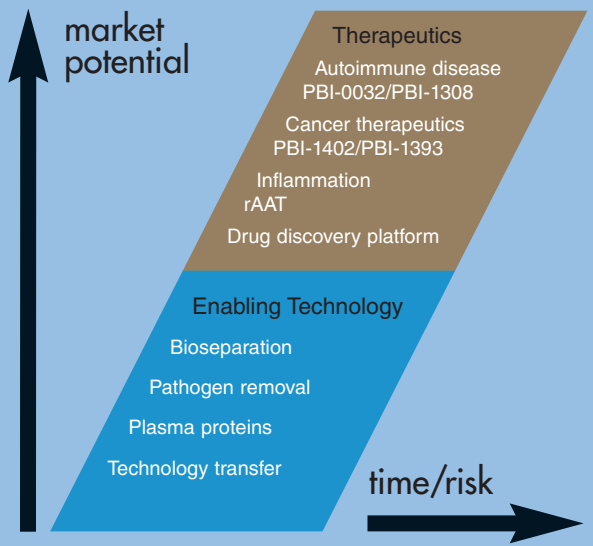
2004 is the year ProMetic went from being a company with great promise to being an organization that delivers on that promise. With teamwork, leadership from our management team and the support of our investors, we have accomplished what we set out to do and much more. We are ready to move into 2005 with a great product pipeline and a solid and growing revenue base.

Six promising drug candidates in less than three years

Our Therapeutic Division has delivered outstanding performance. Three main factors contribute to this productivity: focus on results; leadership of scientists with extensive industry experience; and our drug discovery platform. Thanks to these factors, we are producing promising drug candidates at just a fraction of the cost of the traditional large pharmaceutical model and with a faster time-to-market than the typical biotechnology company model. To date, out of 2,000 compounds investigated, six were selected to be drug candidates. Other companies investigate between 100,000 and 1,000,000 compounds just to bring one compound through clinical studies and eventually to market.

Therapeutics and protein mimetics

The development of protein mimetic products is based on our core technology, Mimetic Ligand™, that the Therapeutic Division can use to identify leads for development. Our objective is to replace with synthetic protein mimetics complex and expensive recombinant proteins that are commercially important.



ProMetic Business Model

The Therapeutic and Enabling Technology team: Boulos Zacharie, Director, Chemistry **Lyne Gagnon,** Director, Biology **Christopher L. Penney,** Vice-President and Chief Scientific Officer, Therapeutics **Victor Bornsztejn,** Global Sales and Marketing Manager **Dev Baines,** Director, Research and Development **Steven J. Burton,** Executive Vice-President and Chief Scientific Officer, Enabling Technology **Christopher Bryant,** Project Director, Plasma Protein Purification System Not appearing: **Peter Edwardson,** Project Director, PRDT

This approach represents a financial opportunity and a significant growth potential, as many such valuable recombinant proteins are already available in the market place. It also provides the advantage of time and increased probability of success for ProMetic. This arises from the fact that the Therapeutic Division is developing protein mimetics of medically proven recombinant proteins.

Intellectual property

Both our therapeutics and enabling technology are well protected by more than 250 patents and patent applications filed internationally.

Positive results for PBI-1402

Therapeutics play an important role in ProMetic's future development. PBI-1402 is one of our most promising and advanced drug candidates. It is a perfect example of our focus on therapies that not only have a positive impact on human health but can also be developed and manufactured at much lower cost. This means it can be brought to market successfully not just in North America, Europe, and Japan, but also in emerging economies in the Middle East, Africa, India, and South America.

Results generated by PBI-1402 (which increases the number of red blood cell precursors [reticulocytes]) in tolerability testing were extremely encouraging. We plan to launch Phase II trials in 2005. PBI-1402 also typifies the approach we have taken to therapeutic development, seeking low molecular weight compounds and lower toxicity.

Taking a closer look at recombinant alpha 1-antitrypsin (rAAT)

rAAT did very well in tolerability tests and produced promising results in a U.K. study on pediatric patients with severe dermatological disorder. The analysis of results of another study carried out in Canada on patients afflicted with atopic dermatitis point to the need to identify the optimal delivery formulation. This is not uncommon for dermatological therapies.

Steady revenue growth

Revenues in 2004 grew from $1.3 million to more than $8 million. This growth was achieved based on sales and licensing agreements from our projects.

ProMetic generates revenues in three basic ways. The first and most direct is custom ligand development on a contract basis and the sale of gels. The second is enabling technology licensing: these deals take longer to finalize, but they also usually include an upfront payment, ongoing royalties, and, in the case of joint ventures, profit-sharing. Due to the nature of these agreements, most of our revenues are generally recognized over time. Nearly all senior management executives are working on business development at some level, and we are working with independent firms specialized in building promising business relationships in our industry.

When our therapeutic compounds make it to market, we will generate the third revenue stream and likely our largest. We will leverage our product value through partnerships for co-development and marketing.

ProMetic and the American Red Cross

To understand the impact of ProMetic's Cascade process, you need to know about the dynamics of the plasma market. The first plasma protein extracted for therapeutic purposes was albumin, which was used in the treatment of shock on the battlefield in World War II. Now, there are a number of other important proteins including clotting factors and immunoglobulins which have proven therapeutic value as drugs. Traditional plasma fractionation methods were designed for the efficient production of albumin and are far less efficient as a means of producing the other important plasma proteins. You also have to consider that the cost of a litre of blood plasma has soared over the last 20 years, going from US $5 per litre to more than US $120 per litre, making the cost of plasma the largest single expense for the current US $5.7 billion plasma industry.

Using filters based on our Mimetic Ligand™ technology, we are able to increase the efficiency of the process up to 400 percent, depending on the selected proteins. Low profit margins have been a key element holding back growth in the market. The impact of Mimetic Ligand™ technology on the cost of goods sold in the plasma industry will be dramatic. Our agreement to out-license the Cascade technology to Hemosol will allow quick turn around to market given the short time it will take to convert their state-of-the-art Meadowpine facility. This agreement means not only payments of $14 million based on the achievements of milestones over the next three to four years, but also on-going royalties on sales.

In addition, our partnerships with the American Red Cross and MacoPharma, a European leader in the blood-filtration market, will come into play in the blood pathogen removal market. The first product, designed to filter the prions that cause variant Creutzfeldt-Jakob disease (vCJD), is slated for regulatory approval in 2005. This product and subsequent filters integrating a leukoreduction filter and,

eventually, viral filtering should allow us to be a very active player in this market.

Technology transfer: putting a global vision into action

The production techniques and expertise we have developed over more than a decade will enable the creation of biopharmaceutical production facilities in emerging economies. By transferring our technology to such facilities we can create long-term streams of recurring revenues for ProMetic. The first project pursued resulted in a partnership with health organizations in Tunisia for the creation of BioMena S.A., a private company whose mission is to manufacture drugs at sustainable prices for the treatment of anemia, cancer, hepatitis and multiple sclerosis, for sale in MENA countries.

Experience and the right attitude have powered growth

We have clearly expanded our capabilities in terms of business development and communications to improve our ability to capitalize on new opportunities. A modest growth in the scientific team has allowed us to strengthen our output through better integration and leveraging of our drug discovery platform.

We also acknowledge the support of our shareholders and financial partners who have been able to see the value of ProMetic all along. They are an important part of the solid foundation we have built.

The one key thing about the ProMetic team is that each and every one is concerned with doing things right. What is ultimately more important to all of us is doing the right thing.

Looking to 2005

Next year will be a year of consolidation, a year in which we build upon the successes and progress of 2004. As a result of products reaching commercial status, milestone payments from partners and clients, as well as custom ligand development projects, 2005 should see increased revenues. We will continue building value for our shareholders by further advancing our therapeutic compounds through our pipeline. This year we delivered on our promises. In 2005, we will capitalize on the opportunities those promises have created.

(signed)

PIERRE LAURIN
Chairman,
President and Chief
Executive Officer

PROMETIC PIPELINE

Field	Bioseparation	Pathogen Removal*	Plasma Proteins*	Technology Transfer
Partners/Clients	GlaxoSmithKline Serono Octapharma Menarini Aventis Novo Nordisk	Strategic alliance between PRDT and MacoPharma	First licensee: Hemosol Corp.	BioMena S.A.**
Projects	Custom ligand development and sales of Mimetic Ligands™	Prion removal technology for human blood and development of a first product	Extraction of plasma proteins	Transfer to manufacturing facility for the production of biopharmaceuticals
Status	Ongoing	First product for regulatory approval in Europe in 2005	Cascade process to be scaled up at Meadowpine in 2005	Signature of technology license and long-term service contract

* Project in collaboration with the American Red Cross
**Project in collaboration with the Biotechnology Research Institute–NRC

PROMETIC PIPELINE

THERAPEUTICS

Compound	Family	Therapeutic Indication	Status
PBI-1402	Cancer	Anemia Adjunct to chemotherapy	Phase I
PBI-1393	Cancer	Adjunct to chemotherapy Antiviral	Advanced pre-clinical
PBI-0032 PBI-1308	Inflammation	Autoimmune diseases (arthritis, lupus)	Pre-clinical development
PBI-1101	Inflammation	Anti-inflammatory	Ready for clinical trials (out-license)
rAAT	Inflammation	Severe dermatological disorders	Phase II

SLE
(lupus)

Glomerulonephristis
(Inflammatory
disease
of the kidney)

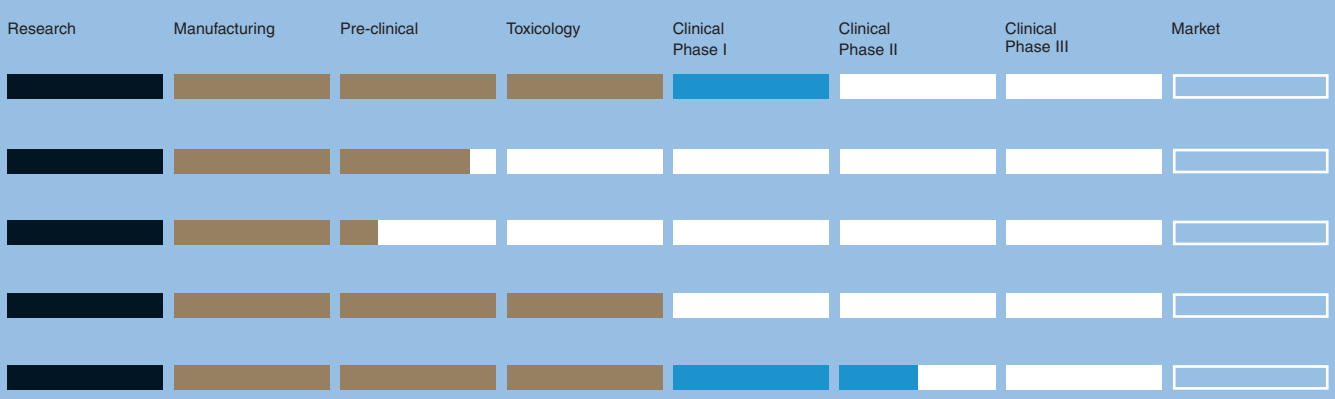
Arthritis

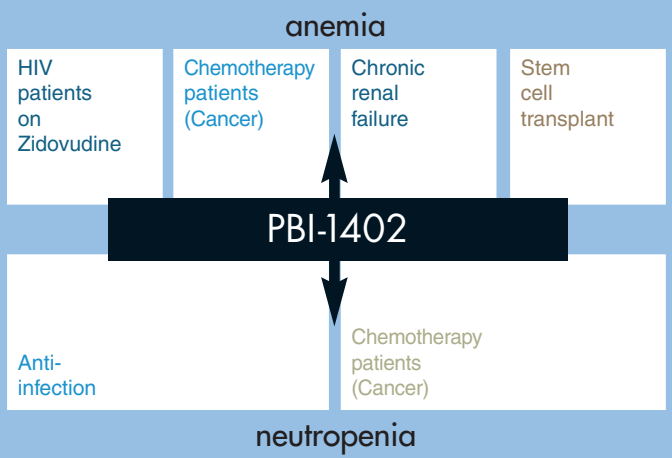
AUTOIMMUNE DISEASE PROGRAM

AUTOIMMUNE DISEASE PROGRAM

Scientists at ProMetic have discovered two new classes of compounds which may function as drugs for the treatment of crippling and, in some instances, life-threatening diseases such as lupus and arthritis. Significant activity was demonstrated for both series in animal models of lupus and arthritis.

These products represent an alternative to expensive and complex therapies without some of the side effects. The autoimmune disease market is estimated at more than US $20 billion.





PBI-1402

PBI-1402 stimulates the proliferation and maturation of hematopoietic progenitor cells. It helps the body produce red blood cells that are depleted in anemia induced by chemotherapy, by renal failure and/or any other forms of anemia.

PBI-1402 is the first therapy in its class that is synthetically produced (less expensive to manufacture) and has a lower molecular weight. In Phase I trial, it demonstrated low toxicity profile, good tolerability and it increased both the relative and the absolute number of reticulocytes, the precursors of red blood cells.

Considering its low manufacturing costs, PBI-1402 should gain quick penetration in the anemia market (US $6.75 billion).

MARCH 2004

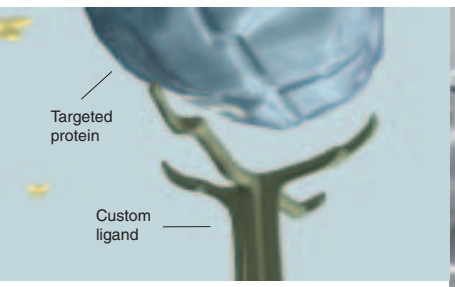
SERONO ASKS PROMETIC TO DESIGN A CUSTOM LIGAND

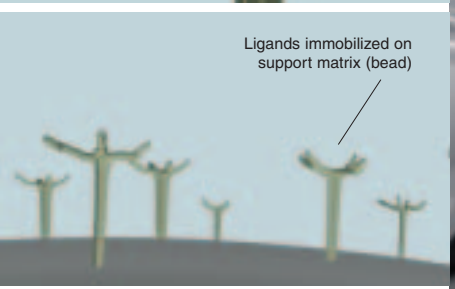
In early March, ProMetic signed a custom ligand development agreement with Serono, the world's third largest biotechnology company – a contract worth $1.3 million in 2004. In November, ProMetic delivered another important milestone in the project by achieving purity and yield requirements through the scale-up process. Once again, proof positive that the Mimetic Ligand™ enabling technology can work on an industrial scale, within ambitious timeframes.

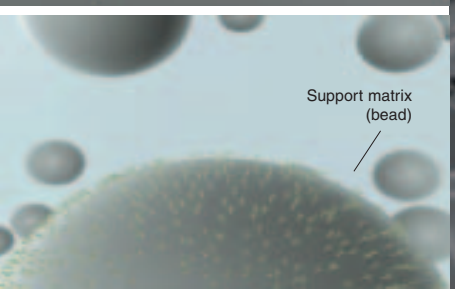
APRIL 2004

PRDT'S PROTOTYPE PRION FILTER SIGNIFICANTLY LOWERS RISK OF INFECTION

In April, PRDT (ProMetic's joint venture with the American Red Cross) announced that the *in vitro* testing of its prion blood filter demonstrated the reduction of abnormal prion proteins to undetectable levels. This equates to 99.99 percent infectivity reduction. By August, MacoPharma (a leader in the industry of blood collection systems and transfusion solutions in Europe) joined the team as a development and marketing partner. With its expertise in blood collection bag manufacturing and products distributed in 55 countries around the world, MacoPharma will not only help accelerate and contribute to the cost of filter development but also give the product a broad sales reach when it launches.







JUNE 2004

HEMOSOL FIRST TO IMPLEMENT CASCADE PROCESS

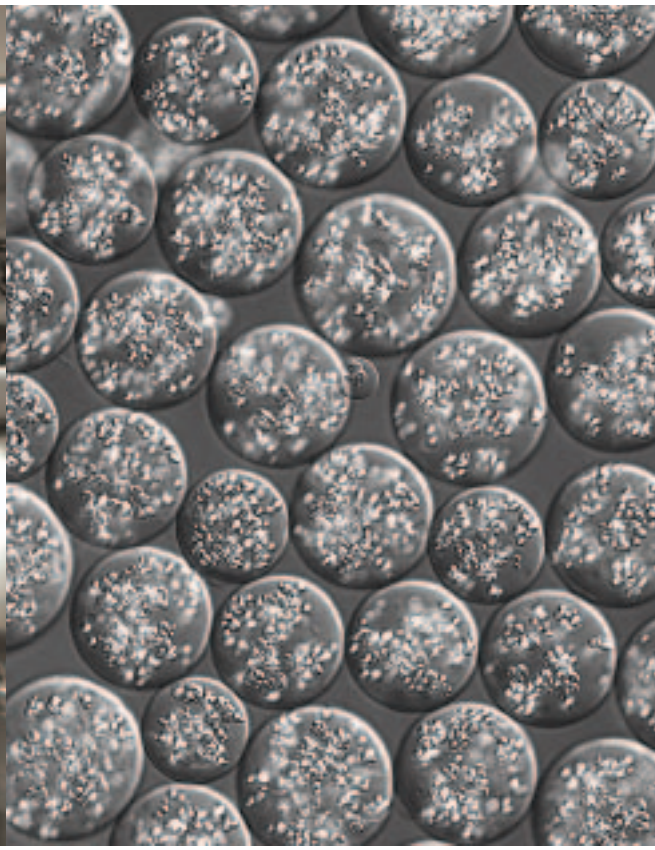
June saw ProMetic finalize a major licensing agreement with Hemosol for its Cascade plasma purification process developed through its second alliance with the American Red Cross. The process will significantly reduce the cost of separating valuable blood proteins and will significantly increase the yield of protein recovery. The agreement also means a staged license fee of $15.5 million as well as a total of 3 million shares in Hemosol (of which ProMetic received 2 million in 2003) and ongoing royalties for ProMetic. Production will take place at Hemosol's state-of-the-art Meadowpine facility near Toronto.

JULY 2004

GLAXOSMITHKLINE AND PROMETIC SIGN MULTI-LIGAND DEAL

In July, ProMetic sealed a landmark agreement with global pharmaceutical giant GlaxoSmithKline (GSK) to develop a series of ligands, based on its Mimetic Ligand™ technology, for use in the purification of biopharmaceuticals. The ongoing agreement is the first of its kind for ProMetic and represents the type of long-term development and out-licensing relationships that are a key part of ProMetic's medium-term revenue mix.

Hemosol Facility



Agarose beads

NOVEMBER 2004

PROMETIC RECOGNIZED BY FROST & SULLIVAN

When respected international business analysts Frost & Sullivan announced their yearly industry leadership awards in November, ProMetic was named technology leader of the year in the bioseparation industry. According to Frost & Sullivan Industry Analyst Giridhar Rao, "ProMetic's technology is cost-effective and is not capital-intensive. Over 40 market players, including Aventis, GlaxoSmithKline, and Novo Nordisk, have adopted ProMetic's revolutionary ligand technology."

DECEMBER 2004

POSITIVE PHASE I RESULTS FOR PBI-1402

Test results announced in mid-December showed good tolerability and positive effects confirming the increase of red blood cell precursors. "This new drug could play a major role in the treatment of anemia induced by chemotherapy and renal dialysis," said Dr. Denis Claude Roy, Hematologist and Director, Cellular Therapy Laboratory at Maisonneuve-Rosemont Hospital in Montreal, and principal investigator of this study.

DECEMBER 2004

BIOMENA DEMONSTRATES THE SUCCESSFUL MARRIAGE OF NEW TECHNOLOGY, WORLD VISION AND GOOD BUSINESS SENSE

BioMena S.A., the result of an alliance between ProMetic, the Tunisian government and financial partners, is a private company whose mission is to manufacture affordable biopharmaceutical products for diseases such as anemia, cancer, hepatitis and multiple sclerosis and market them to Middle East, North-African countries (MENA) and selected European markets, at competitive prices. The new company will help provide Tunisia with a strategic platform in the biopharmaceutical industry. This state-of-the-art facility will be built at Sidi Thabet, near Tunis.

DECEMBER 2004

PROMETIC CONCLUDES A $1.4 MILLION AGREEMENT WITH OCTAPHARMA

At the end of 2004, ProMetic signed a development agreement with Octapharma, a swiss-based plasma fractionation specialist, providing access to our advanced Mimetic Ligand™ affinity technology. This new partnership brings added recognition to ProMetic's expertise and further consolidates our position as a leading provider of innovative solutions to the biopharmaceutical industry.

MD&A

The management's discussion and analysis, prepared March 8, 2005, aims at helping the reader to better understand the business and the key elements of the financial results. It explains the trends of the financial situation and the operating results of the Company for the 2004 financial year by comparing to the 2003 operating results and balance sheets as at December 31, 2003. This management's discussion and analysis was prepared in accordance to *Regulation 51-102 respecting continuous disclosure obligations* and should be read in conjunction with the 2004 consolidated financial statements and the accompanying notes of this annual report. The financial statements were prepared in accordance with Canadian generally accepted accounting principles. Unless otherwise indicated, all figures are expressed in Canadian dollars.

OVERVIEW

In 2004, ProMetic Life Sciences Inc. and its subsidiaries ("ProMetic" or the "Company") had a year of solid progress, which means set-out expectations were met. We reached a stage of technical maturity that is reflected both in revenues and in the quality of our products.

Even at this early stage, the Company has succeeded in converting value from some of its enabling technology assets into significant non-dilutive cash inflows in 2004 through contract development projects with multinationals such as Serono and GlaxoSmithKline. Encouraging results from PBI-1402 helped generate partnering interest. In addition, the pipeline includes a number of other very interesting compounds.

Our joint venture and alliance with the American Red Cross have moved forward and the signing of a license agreement with Hemosol Corp. has generated revenues immediately, bringing our Cascade technology an important step closer to market. We have also signed an agreement with MacoPharma who will share the development costs of Pathogen Removal and Diagnostic Technologies' (PRDT)[1] prion filter and be the main force behind the launch and distribution of the product.

Late in the year, we concluded a technology transfer and professional services agreement in Tunisia. The creation of a for-profit company called BioMena was a key step forward. Partnering with stable organizations in emerging economies to create state-of-the-art facilities for the manufacture of biopharmaceuticals presents an interesting opportunity that is both profitable and fits with our philosophy of helping to create the building blocks of a healthier future.

(1) ProMetic's joint venture with the American Red Cross

SELECTED ANNUAL INFORMATION

The following selected annual information is derived from the audited consolidated financial statements for each of the three most recently completed financial years. The financial statements are prepared in accordance with Canadian GAAP.

(in thousands of Canadian dollars, except for per share amounts)	2004	2003	2002
	$	$	$
Revenues	8,183	1,319	2,511
Net loss	17,152	20,298	14,111
Net loss per share	0.17	0.23	0.19
Total assets	29,705	42,620	39,457
Long-term debt	407	847	200

OPERATING RESULTS

Revenues

This year, total revenues were up significantly to $8.2 million from $1.3 million in 2003.

Our stream of recurring revenues also increased substantially from $1.3 million in 2003 to $3.8 million this year, in line with the Company's September 2004 guidance of $3.9 million. Our technology received strong scientific endorsements from our development program partners (Serono, GlaxoSmithKline, Octapharma). Each contract of this type involves payments for milestones in the development of the custom ligand and may eventually lead to increased revenues as partners' proteins move into further clinical development stages.

We also increased our visibility to customers, reflecting investment in commercial resources performed in late 2003. We are at the point now when recurring revenues can absorb an increasing share of operational expenses.

This year, the strategic alliance and license agreement with Hemosol contributed $4.4 million to ProMetic's revenues. The remaining consideration for this agreement consists of future conditional payments totalling $14 million which will be triggered by the achievement of certain predetermined milestones. Hemosol will also pay royalties to ProMetic related to the sale of products produced using the Cascade process.

Two of our drug candidates have reached the clinical trial phase (PBI-1402 in Phase I and rAAT in Phase II). A number of other compounds such as ProMetic's anti-tumor compound PBI-1393 showed positive results and manufacturing is currently being scaled up to allow for clinical trials in 2005.

ProMetic's PRDT venture with the American Red Cross finalized a key strategic alliance with MacoPharma which will share current and future product development expenses for our first-generation human blood prion filter and subsequent generation of products. MacoPharma, one of the largest manufacturers and distributors of blood collection bag sets, will pay an ongoing royalty on sales to PRDT. ProMetic will benefit from sales royalties through its 26-percent stake in PRDT, but also directly through certain management responsibilities for manufacturing.

Operating expenses

Our research and development expenditures for the year amounted to $14.3 million, up from $13.5 million last year, reflecting increased investments both in the Therapeutic and Enabling Technology Divisions. Tax credits available under provincial tax programs have been recorded in 2004. These two divisions are at the heart of our strategy to focus on medium and long-term value to build solid fundamentals and a strong base of recurring revenues. For example, we funded clinical trial programs for PBI-1402. In addition, through our joint venture with Arriva Pharmaceuticals, Inc., we helped fund two phase II trials for rAAT.

In the Enabling Technology Division, most of the increased spending was related to moving our joint venture and alliance with the American Red Cross nearer to the commercial phase where they would begin creating revenue. In the case of PRDT, the strategic partnership with MacoPharma will assist in containing the cost of bringing the first prion filter to market, with MacoPharma sharing the existing and future development costs. For Plasma Protein Purification Scheme, our collaborative agreement with the American Red Cross, investments related to the scale-up of the Cascade technology and the secondary process development accounted for most of the expenses.

Administrative, marketing and other expenses remained stable at $5.3 million, as did depreciation and amortization expenses at $2.7 million, compared to $2.7 million last year. A provision related to a lawsuit of $2.7 million has been recorded in 2004; this non-recurring expense reflects the judgment in favor of Bank of Montreal issued in December 2004. The Company subsequently appealed the judgment in January 2005.

Net results

ProMetic incurred a net loss of $17.2 million this year or $0.17 per share, as compared to a net loss of $20.3 million, or $0.23 per share in 2003. These results clearly demonstrate that the Company's strategy is on track for further growth in 2005. Net loss before a provision related to a lawsuit, write-down of short-term investment and net interest income amounts to $0.14 per share for 2004, compared to $0.24 in 2003.

LIQUIDITY AND FINANCIAL POSITION

Current assets totalled $13.6 million as at December 31, 2004 compared to $28.1 on December 31, 2003.

Short-term investments increased to $2.3 million as at December 31, 2004, compared to $1.8 million in the previous year, as one million common shares of Hemosol Corp. were received by the Company following the execution of the strategic alliance and license agreement with Hemosol. The Company holds a total of three million Hemosol common shares with a book value of $2.3 million as at December 31, 2004, while the corresponding market value amounts to $3 million.

Accounts receivable reached $2.8 million as at December 31, 2004, compared to $0.7 million in the previous year, mainly due to research and development tax credits receivable for an amount of $1.3 million recorded during the year.

Capital assets have increased to $5.2 from $3.5 million in 2003 as capital investments in ProMetic's Isle of Man facilities to expand manufacturing capacity and adapt to environmental regulations were required. Other asset additions included laboratory equipment and other computer hardware and software needed to accelerate research and development.

Deferred development costs decreased in 2004 from $2 million to $1 million, while deferred revenues decreased substantially to $0.2 million as at December 31, 2004 due to the execution of the strategic alliance and license agreement with Hemosol for the Cascade technology.

CASH FLOWS

Cash flows used in operating activities totaled $16.7 million for the year ended December 31, 2004, compared to $15.8 million for the same period in 2003. This increase is primarily due to the increase in the accounts receivable.

Cash flows from financing activities amounted to $3.2 million for the year ended December 31, 2004. In January 2004, the underwriting syndicate exercised, in full, its over-allotment option. As a result, ProMetic issued an additional 1,578,947 Subordinate Voting Shares at a price of $1.90 for gross proceeds of $3 million.

Finally, cash flows used in investing activities totaled $3.8 million. The purchase of intellectual property and capital assets constituted the principal elements of asset acquisitions.

Our ability to continue as a going concern is dependent upon raising additional financing through borrowing or equity financing, receiving funds through collaborative research contracts or product licensing agreements already in place and achieving future profitable operations.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Company finances certain of its activities off-balance sheet through leases. On an ongoing basis, we enter into operating leases for buildings and equipment. Minimum future rental payments under these operating leases, determined as at December 31, 2004, are included in the contractual obligations table below.

CONTRACTUAL OBLIGATIONS

In the normal course of operations, we have entered into several contracts providing for the following payments over the next fiscal years:

		Payments due by period			
	Total	Less than 1 year	1–2 years	3–4 years	After 4 years
(in thousands of Canadian dollars)	$	$	$	$	$
Bank loan	1,029	1,029			
Long-term debt	802	395	407		
Capital lease obligations	45	45			
Operating leases	7,811	1,380	2,666	2,491	1,274
Total contractual obligations	9,687	2,849	3,073	2,491	1,274

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting periods. We have identified the following accounting policies that we believe require application of management's most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Our actual results could differ from these estimates and such difference could be material.

Impairment of long-lived assets

Management reviews the valuation and amortization of licenses and patents on an ongoing basis, taking into consideration any events and circumstances which may impair its value. The Company assesses impairment in a two-step process for first determining when an impairment loss is recognized and then measuring that loss.

Research and development and tax credits

Research expenditures (net of related tax credits) are expensed as incurred and include reasonable allocation of overhead expenses. Development expenditures (net of related tax credits) are deferred when they meet the criteria for capitalization in accordance with Canadian GAAP, and the future benefits could be regarded as being reasonably certain. Related tax credits are accounted for as a reduction to research and development expenditures on condition that the Company is reasonably certain that these credits will materialize. During 2004 and 2003, no development costs were deferred.

Stock-based compensation

When the Company issues stock options to its employees, directors and officers, a fair value is derived for the stock options using the Black-Scholes pricing model. The application of this pricing model requires management to make

assumptions regarding several variables, including the expected life of the options, the price volatility of the Company's stock over a relevant timeframe, the determination of a relevant risk-free interest rate and an assumption regarding the Company's dividend policy in the future.

CHANGES IN ACCOUNTING POLICIES

Stock-based compensation

Effective January 1, 2004, Canadian GAAP requires the fair value of options granted to employees be expensed over their vesting period. Prior to January 1, 2004, the Company did not recognize any compensation for stock options granted to employees as the granting and exercizing of options were accounted for as equity transactions.

The Company is adopting the new accounting policy on a retroactive basis with no restatement of prior periods. Accordingly, on January 1, 2004, retained earnings was reduced and contributed surplus was increased to account for the stock option expense that would have been charged to loss in 2002 and 2003 with respect to all options granted since January 1, 2002.

CAPITAL STOCK INFORMATION

As at December 31, 2004, the capital stock issued and outstanding consisted of 86,486,784 participating subordinate voting shares (84,842,937 as at December 31, 2003) and 13,026,375 participating multiple voting shares (same number as at December 31, 2003). As at December 31, 2004, 3,615,702 stock options were issued and outstanding.

OUTLOOK

In 2005, ProMetic will keep focusing on continued expansion of its recurring revenue base through enabling technology licensing and custom ligand development and also on finding major co-development partners for its most promising therapeutic compounds.

It is estimated that revenues from the Enabling Technology Division will expand with the projected confirmation of a $4 million milestone from Hemosol.

Higher risk elements are the therapeutic compounds under development. Risk factors include the time necessary to bring a human therapy to market, the costs, and the regulatory environment. To minimize these risks, we are actively looking for major co-developers who have the experience, manpower and funding to make sure promising compounds such as PBI-1402 make it to market as quickly as possible.

With strong partnerships, a proven enabling technology, drug candidates that are generating significant attention, and a strong revenue stream already, this will be a year of consolidation and substantial growth.

RISKS AND UNCERTAINTIES

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

These statements should not be construed as guarantees of future performance and are subject to certain risks and uncertainties beyond ProMetic's control. These risks could cause actual results to differ materially from those expressed or implied in Management's Discussion and Analysis of Operating Results and Financial Position. Some of the risks include : a change in general economic and/or business conditions; changes in government regulations; adverse results in drug discovery and development and pre-clinical or clinical trials. Other risks include : the ability of our development and marketing partners to deliver on contractual obligations and/or meet milestones; intellectual

property issues and the timing and decisions of regulatory bodies such as HPFB[1], FDA[2] and EMEA[3] as well as changes in the competitive landscape and the continued availability of new capital to finance activities. Finally, there are risks involved in the performance of contractual obligations, the failure to meet major milestones or the failure to realize expected synergies in our major partnerships, or our ability to manage them.

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

Forward-looking statements

The Management's Discussion and Analysis of Operating Results and Financial Position contains "forward-looking statements", in the sense of security and exchange laws, which are based on certain estimates and expectations. The statements, which are not based on historical facts, such as statements related to management's opinions and expectations, are forward-looking statements. These statements are subject to certain risks and uncertainties, and the actual results could differ sensibly to those presented. Management does not commit to revise these forward-looking statements to take into account new information, events to come or other factors.

SUMMARY OF QUARTERLY RESULTS

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

	December 31 2004	September 30 2004	June 30 2004	March 31 2004	December 31 2003	September 30 2003	June 30 2003	March 31 2003
	$	$	$	$	$	$	$	$
Revenues	0.8	1.6	5.2	0.5	0.4	0.3	0.3	0.3
Net loss	6.1	4.6	1.4	5.1	5.9	4.8	5.4	4.2
Net loss per share	0.06	0.05	0.01	0.05	0.05	0.06	0.05	0.07
Weighted average number of outstanding shares (in millions)	99	99	99	99	88	87	86	86

FOURTH QUARTER

Consolidated statements of operations for the three-month periods ended December 31, 2004 and 2003 are as follows:

(in thousands of Canadian dollars) Unaudited	2004 $	2003 $
Revenues	848	445
Operating expenses	4,216	6,419
Operating loss	3,368	5,974
Provision related to a lawsuit	(2,715)	–
Net interest income	9	27
Net loss	6,074	5,947

Revenue increases during the fourth quarter were caused by higher product sales and developments contracts. The net loss is comparable with last year's. A decrease in operating expenses was offset by the special charge for a provision related to a lawsuit.

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

MANAGEMENT'S REPORT

The accompanying consolidated financial statements for ProMetic Life Sciences Inc. are management's responsibility and have been approved by the ProMetic Board of Directors. These financial statements were prepared 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 obtained in the financial statements.

To ensure the accuracy and the 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 safe-guarded.

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 annual consolidated statements, as well as management's discussion and analysis of operating results and financial position, and recommend their approval by the Board. Raymond Chabot Grant Thornton, 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.

(signed)

Pierre Laurin
Chairman, President
and Chief Executive Officer

(signed)

Claude Lambert
Vice-President,
Finance and Administration

Montréal, Canada
March 8, 2005

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of ProMetic Life Sciences Inc. as at December 31, 2004 and the consolidated statement of operations, deficit and cash flows for the year 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 audit.

We conducted our audit 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2003 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 25, 2004.

(signed)

Raymond Chabot Grant Thornton LLP
Chartered accountants

Montréal, Canada
March 8, 2005

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003
(in thousands of Canadian dollars)

	2004 $	2003 $
Assets		
Current assets		
Cash and cash equivalents	6,770	24,052
Short-term investment (notes 5 and 16)	2,340	1,800
(Market value of $3,030, $3,140 in 2003)		
Accounts receivable (note 6)	2,796	684
Inventories (note 7)	921	586
Prepaid expenses	789	958
	13,616	28,080
Investments (notes 8 and 16)	4,479	3,371
Capital assets (note 9)	5,190	3,493
Licenses and patents (note 10)	5,430	5,649
Deferred development costs	990	2,027
	29,705	42,620
Liabilities		
Current liabilities		
Bank loan (note 11)	1,029	–
Accounts payable and accrued liabilities (note 12)	7,714	6,069
Deferred revenue	243	1,800
Current portion of long-term debt (note 13)	440	490
	9,426	8,359
Long-term debt (note 13)	407	847
Preferred shares, retractable at the holder's option (note 8 (b))	1,586	914
	11,419	10,120
Shareholders' Equity		
Share capital (note 14)	135,682	132,617
Contributed surplus (note 14)	99	–
Deficit	(117,495)	(100,117)
	18,286	32,500
	29,705	42,620

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

On behalf of the Board:

(signed)

Pierre Laurin
Director

(signed)

Claude Lemire
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	2004 $	2003 $
Revenues		
Sales and contract	3,813	1,319
Licensing	4,370	–
	8,183	1,319
Expenses		
Research and development expenses	14,271	13,501
Administration, marketing and other expenses	5,274	5,654
Amortization	2,740	2,751
	22,285	21,906
Loss before the following items	14,102	20,587
Provision related to a lawsuit (note 16)	(2,715)	–
Write-down of short-term investment (note 5)	(530)	–
Net interest income	195	289
Net loss	17,152	20,298
Net loss per share (basic and diluted)	0.17	0.23
Weighted average number of outstanding shares (in thousands)	99,429	86,707

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

CONSOLIDATED STATEMENTS OF DEFICIT

(in thousands of Canadian dollars)

	2004 $	2003 $
Deficit, beginning of year	100,117	78,395
Adjustment for change in stock-based compensation (note 14 (c))	44	–
Deficit, beginning of year as restated	100,161	78,395
Net loss	17,152	20,298
Share issue expenses	182	1,424
Deficit, end of year	117,495	100,117

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	2004 $	2003 $
Cash flows from operating activities		
Net loss	(17,152)	(20,298)
Adjustments to reconcile net loss to cash flows used in operating activities		
Revenues received in shares	(3,052)	–
Stock-based compensation	55	–
Write-down of short-term investment (note 5)	530	–
Amortization of capital assets	872	1,007
Amortization of deferred development costs	1,037	1,182
Amortization of licenses and patents	831	562
	(16,879)	(17,547)
Change in working capital items (note 20)	199	1,753
	(16,680)	(15,794)
Cash flows from financing activities		
Proceeds from share issues	3,065	20,148
Share issue expenses	(397)	(1,201)
Bank loan	1,029	–
Long-term debt	–	1,351
Repayment of long-term debt	(490)	(364)
	3,207	19,934
Cash flows from investing activities		
Disposal of short-term investments	–	9,509
Acquisition of a long-term investment	(254)	(175)
Additions to capital assets	(2,202)	(1,639)
Additions to licenses and patents	(1,353)	(1,173)
	(3,809)	6,522
Net increase (decrease) in cash and cash equivalents	(17,282)	10,662
Cash and cash equivalents, beginning of year	24,052	13,390
Cash and cash equivalents, end of year	6,770	24,052

(For supplemental cash flow information, see note 20)
The accompanying notes are an integral part of the consolidated financial statements.

NOTES

1 GOVERNING STATUTES AND NATURE OF OPERATIONS

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

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

2 CHANGES IN ACCOUNTING POLICIES

(a) Standards applicable for the year ended December 31, 2004

Generally accepted accounting principles and financial statement presentation

On January 1, 2004, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1100, *Generally Accepted Accounting Principles*, and Section 1400, *General Standards of Financial Statement Presentation*. Section 1100 describes what constitutes Canadian generally accepted accounting principles ("GAAP") and its sources. It also provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of Canadian GAAP. The new standard eliminates "industry practice" as a possible source of consultation. Section 1400 provides general guidance on financial statement presentation and further clarifies what constitutes fair presentation in accordance with Canadian GAAP. The adoption of these recommendations has had no significant impact on the financial statements for the year ended December 31, 2004.

Impairment of long-lived assets

The CICA issued Section 3063 of the Handbook, *Impairment of Long-lived Assets* and revised Section 3475 *Disposal of Long-Lived Assets and Discontinued Operations*. These two sections provide guidance on how assets are grouped when testing for and measuring impairment and propose a two-step process for first determining when an impairment loss is recognized and then measuring that loss. The Company adopted these recommendations as of January 1, 2004. The adoption of these recommendations had no impact on the financial statements of the Company.

Stock-based compensation

Effective January 1, 2004, Canadian GAAP requires the fair value of options granted to employees to be expensed over their vesting period. Prior to January 1, 2004, the Company did not recognize any compensation expense for stock options granted to employees as the granting and exercising of options were accounted for as equity transactions (see note 14 (c)).

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Effective January 1, 2004, the Company adopted the recommendations of the Emerging Issues Committee ("EIC") of the CICA in abstracts EIC-141, *Revenue Recognition* and EIC-142, *Revenue Arrangements with Multiple Deliverables*. EIC-141 provides interpretative guidance on the application of Section 3400 of the CICA Handbook, “Revenue”. More specifically, the abstract presents the criteria to be met so that revenue recognition can be considered as having been achieved. EIC-142 addresses not only when and how an arrangement involving multiple deliverables should be divided into separate elements of accounting, but also how the arrangement’s consideration should be allocated among separate units. Adoption of these recommendations did not affect the financial position or results of operations in the consolidated financial statements.

Consolidation of variable interest entities

Effective January 1, 2004, the CICA issued AcG-15, *Consolidation of Variable Interest Entities*. AcG-15 requires certain variable interest entities, or VIEs, to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest defined in the accounting guideline or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company currently has no contractual relationship or other business relationship with a variable interest entity and therefore the adoption of AcG-15 did not have an effect on the Company’s consolidated financial statements.

(b) Standards applicable for the year ended December 31, 2003

Guarantees

In February 2003, the CICA 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 also be 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, a liability or an equity security of the other party. The Company did not enter into agreements containing features that meet the AcG-14 criteria for a guarantee.

Share purchase financing

Effective January 1, 2003, the Company adopted the new CICA EIC abstract No. 132, *Share Purchase Financing*. 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.

3 SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). Significant accounting policies are described below.

(a) Use of estimates

The preparation of financial statements in accordance with Canadian GAAP 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 year. Significant items for which management must make estimates relate to the valuation and assessment of recoverability of the investments, licenses and patents, tax credits and deferred development costs. 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.

(b) 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., and ProMetic BioSciences Ltd as well as those of the two joint ventures Arriva-Prometic Inc. and Pathogen Removal and Diagnostic Technologies Inc. (hereinafter referred to as "A-P" and "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.

(c) Cash and cash equivalents

Cash and cash equivalents are bank deposits and highly liquid investments purchased with a maturity of three months or less.

(d) Short-term investment

The short-term investment is carried at the lower of cost and market value (closing sale price of the Toronto Stock Exchange).

(e) Inventories

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

(f) Investments

Investments are recorded at acquisition cost. When, in management's opinion, there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. In determining the estimated realizable value of its investment, 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.

(g) Capital assets

Capital assets are recorded at cost. Amortization 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%

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Government grants

Government grants on capital expenditures are credited to capital assets and are released to amortization expense over the expected useful life of the relevant assets by equal annual amounts. Grants receivable in connection with operating expenditures are credited to the consolidated statement of operations in the period in which the expenditures take place.

(i) Licenses and patents

Licenses and patents include vested rights as well as licensing fees for product manufacturing and marketing. Amortization is provided over the useful lives of the licenses and patents acquired using the straight-line method ranging up to 20 years. Management reviews the valuation and amortization of licenses and patents on an ongoing basis, taking into consideration any events and circumstances which may impair its value. The Company assesses impairment in a two-step process for first determining when an impairment loss is recognized and then measuring that loss.

(j) Research and development

Research expenditures (net of related tax credits) are expensed as incurred and include a reasonable allocation of overhead expenses. Development expenditures (net of related tax credits) are deferred when they meet the criteria for capitalization in accordance with Canadian GAAP, and the future benefits could be regarded as being reasonably certain. Related tax credits are accounted for as a reduction to research and development expenditures on condition that the Company is reasonably certain that these credits will materialize. During 2004 and 2003, no development costs were deferred.

(k) Revenue recognition

The Company earns revenue from research and development collaboration services, licensing fees and product sales. Payments received under collaborative research and development agreements, which are non-refundable, are recorded as revenue as services are performed and the related expenditures incurred pursuant to the terms of the agreement and provided collectibility is reasonably assured. Non-refundable up-front license fees from collaborative licensing and development arrangements are recognized as the Company fulfills its obligations related to the various elements within the agreements, in accordance with the contractual arrangements with third parties and the term over which the underlying benefit has been conferred. Revenues associated with multiple element arrangements are attributed to the various elements based on their relative fair value. Any up-front license payments received under an agreement whereby the Company also provides research and development services are recognized as revenue over the term of the research and development period. Revenue earned under contractual arrangements upon the occurrence of specified milestone isrecognized as the milestones are achieved and collection of payment is reasonably assured.

Revenue from product sales is recognized when products are shipped.

Cash or other compensation received in advance of meeting the revenue recognition criteria is recorded as deferred revenue on the consolidated balance sheet.

(l) 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 consolidated statement of operations.

(m) Income taxes

The Company uses the 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 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. Future income tax assets are recognized and a valuation allowance is provided if realization is not considered "more likely than not".

(n) Stock-based compensation

The Company maintains a stock option plan as described in note 14(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.

Since January 2004, the Company has adopted the new accounting policy for stock-based compensation to employees. Under this method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the related service period.

(o) Earnings per share

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method giving effect to the exercise of options and warrants. The treasury stock method assumes that any proceeds that could be obtained upon the exercise of options and warrants would be used to repurchase common shares at the average market price during the year.

(p) Share issue expenses

The Company records share issue expenses in the consolidated statement of deficit.

4 INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands of Canadian dollars)	2004 $	2003 $
Amortization of capital assets	872	1,007
Amortization of deferred development costs	1,037	1,182
Amortization of licenses and patents	831	562
Research and development tax credits	1,298	–
Interest on long-term debt	92	95

5 SHORT-TERM INVESTMENT

(in thousands of Canadian dollars except for number of shares)	2004	2003
Number of Hemosol shares, a public company	3,000,000	2,000,000
Cost	$2,340	$1,800
Fair market value	$3,030	$3,140

As at September 30, 2004, the value of the investment has been written-down by $530,000 according to a decrease in the Hemosol share price which was below the carrying value.

6 ACCOUNTS RECEIVABLE

(in thousands of Canadian dollars)

	2004 $	2003 $
Trade*	673	245
Sales taxes receivable	277	414
Tax credits receivable (note 11)	1,298	1
Advance to an officer, without interest	360	–
Accrued interest and other	188	24
	2,796	684

* The trade accounts include amounts receivable from two customers, which represent approximately 72% of the Company's total trade accounts receivable (three customers representing 95% of total trade receivable in 2003).

7 INVENTORIES

(in thousands of Canadian dollars)

	2004 $	2003 $
Raw materials	317	273
Work in progress and finished goods	604	313
	921	586

8 INVESTMENTS

(in thousands of Canadian dollars)

	2004 $	2003 $
Convertible preferred shares of Arriva Pharmaceuticals, Inc.	2,281	2,281
Convertible preferred shares of AM-Pharma Holding B.V.	358	176
Cash subject to certain limitations	254	–
Excess of the interest in the joint venture Pathogen Removal and Diagnostic Technologies Inc. over proportionate share in consolidated net assets	1,586	914
	4,479	3,371

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:

(in thousands of Canadian dollars)	PRDT[a]	A-P note 10(c)	2004 Total	2003 Total
	$	$	$	$
Current assets	33	16	49	60
Long-term assets	1,554	2,109	3,663	3,066
Total liabilities	1,585[b]	66	1,651	1,071
Total expenses being net loss	2,664	526	3,229	3,053
Cash flows from:				
Operations	–	(138)	(138)	(632)
Investing	–	(266)	(266)	(671)

(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." 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.

9 CAPITAL ASSETS

(in thousands of Canadian dollars)	2004 Cost	2004 Accumulated amortization	2003 Cost	2003 Accumulated amortization
	$	$	$	$
Leasehold improvements	2,163	506	772	352
Equipment and tools	6,185	3,394	5,232	2,906
Office equipment and furniture	594	275	566	235
Computer equipment	863	440	699	283
	9,805	4,615	7,269	3,776
Accumulated amortization	4,615		3,776	
Net book value	5,190		3,493	

Deferred capital grants received from the Isle of Man government are credited to the cost of capital assets (see note 22).

10 LICENSES AND PATENTS

(in thousands of Canadian dollars)	2004 $	2003 $
Cost	7,642	7,030
Accumulated amortization	(2,212)	(1,381)
Net book value	5,430	5,649

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

(b) Effective November 9, 1995, the Company has the right to a patented technology permitting the link of the Mimetic Ligand™ to a matrix of perfluorocarbon 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.

(c) As of April 13, 1999, through its subsidiary, ProMetic Biosciences Inc., the Company entered into a 50-50 joint venture, Arriva-Prometic Inc., with Arriva Pharmaceuticals, Inc. ("Arriva") for the development of applications relating to serine protease inhibitors as a platform for various pharmaceutical products for dermatological (eczema, psoriasis, genital herpes) and gastrointestinal (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 Arriva-Prometic an exclusive, perpetual license to develop, manufacture and commercialize these serine protease inhibitors, and the Company has granted Arriva-Prometic an exclusive, perpetual license for the use of its Mimetic Ligand™ purification technology for the indications within the scope of the joint venture. The Company has also undertaken to fund the joint venture to a maximum of US$ 4 million of which US$ 398,688 has been contributed in 2004 for a total of US$ 3,839,910 (2003: US$ 3,441,222). The Company will progressively record 50% of its US$ 4 million contribution as intellectual property. In 2004, the Company recorded an amount of $ 266,456 as intellectual property (2003: $ 670,750) for a total of $ 2,880,199 (2003: $ 2,613,743).

(d) On June 6, 2002, the Company 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. The Company 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, the Company will pay royalties on the sales of compound-based products.

(e) The purpose of the strategic alliance between the Company and the American Red Cross signed in January 2003 is to co-develop the Cascade process and license to third parties proprietary technology for the recovery and purification of valuable therapeutic proteins from human blood plasma. The Cascade process integrates novel technologies in a sequence that is expected to significantly improve both the yield and range of valuable proteins capable of being isolated from human plasma. On October 1, 2003, the Company acquired for $642,077, from the American Red Cross, an exclusive license for access to and use of intellectual property rights for the Plasma Protein Purification Scheme ("PPPS") project. ProMetic will be collecting revenues deriving from any licensing activities, such as royalties on net sales, lump sum amounts and/or milestone payments. ProMetic will pay a 25% after having recouped its stage 1 development costs that the Company is committed to support. The American Red Cross will pay ProMetic 2% on any net sales of licensed products.

(f) An officer and some directors are entitled to receive royalties based on the sales of certain products submitted to ProMetic before joining the Company. These royalties vary between 0.1% and 0.3% of net sales or between 1% and 3% of revenues received by the Company. These employees also have the exclusive right to commercialize these products should ProMetic decide to stop developing and (or) commercializing them, subject to mutually acceptable terms and conditions.

(g) In the normal course of business, the Company enters into license agreements for the market launching or commercialization of intellectual property. Under these licenses, including those mentioned above, the Company has committed to pay royalties ranging generally between 0.5% and 10% of net sales from products it commercializes.

11 BANK LOAN

(in thousands of Canadian dollars)

	2004 $	2003 $
Bank loan of ProMetic BioSciences Inc., a wholly-owned subsidiary of the Company, related to research and development tax credits and secured by a hypothec in the amount of $1.3 million on all present and future assets of the subsidiary (other than intellectual property and certain investments) guaranteed by the Company, bearing interest at prime plus 1.75% (6% as at December 31, 2004) payable upon receipt of the corresponding tax credits.	1,029	–

12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of Canadian dollars)

	2004 $	2003 $
Provision related to a lawsuit (note 16)	2,715	–
Accounts payable to an officer	236	102
Other	4,763	5,967
	7,714	6,069

13 LONG-TERM DEBT

(in thousands of Canadian dollars)	2004 $	2003 $
Loan of 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 with monthly instalments of $37,845, due June 2007	802	1,156
Capital lease obligation payable in monthly instalments of $11,340 expiring in 2005	45	181
	847	1,337
Current portion of long-term debt	440	490
	407	847

The payments on the long-term debt for each of the next three years are as follows:

(in thousands of Canadian dollars) Year ending December 31:	Bank loan $	Capital lease obligation $
2005	395	46
2006	364	–
2007	43	–
Total payments	802	46
Less amount representing interest (at a rate of 9.42%)		1
Present value of net minimum capital lease payments		45
Current portion of obligations under capital leases		45
		–

14 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.

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.

(in thousands of Canadian dollars except for number of shares)	2004		2003	
	Number	$	Number	$
Issued and fully paid:				
Subordinate voting shares	86,486,784	134,569	84,842,937	131,504
Multiple voting shares	13,026,375	1,563	13,026,375	1,563
Share purchase loan to an officer, without interest and due no later than 2009		(450)		(450)
Balance, at end of year		135,682		132,617

(a) Share issue

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

(in thousands of Canadian dollars except for number of shares)	2004		2003	
	Number	$	Number	$
Balance, at beginning of year	84,842,937	131,504	72,743,722	110,656
Shares issued pursuant to:				
Public offerings	1,578,947	3,000	10,526,316	20,000
Exercise of warrants and options	64,900	65	93,250	148
Conversion of preferred shares	–	–	1,479,649	700
Balance, end of year	86,486,784	134,569	84,842,937	131,504

During financial year 2003, except for shares issued pursuant to the conversion of preferred shares, all subordinate voting shares were issued for a cash consideration.

During financial year 2004, no Class A and Class B preferred shares were converted. In 2003, 550,000 Class A and 150,000 Class B preferred shares were converted into 1,201,988 and 277,661 subordinate voting shares, respectively

There were 631,578 warrants as at December 31, 2003 which expired in December 2004.

14 SHARE CAPITAL (CONTINUED)

(b) Stock options

The Company has established a stock option plan for its directors, officers and employees or consultants. 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 5 years and 1 month from the date they were granted (options vest 20% per annum).

		2004	2003
Year of grant	Exercise price	Number of options outstanding	
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	1,537,500	1,603,000
2000	$1.35	300,000	300,000
2001	$1.00 to $2.00	815,000	1,823,000
2002	$2.50 to $2.70	223,000	224,000
2003	$2.70	95,000	113,500
2004	$2.70	415,700	–
		3,615,702	4,293,002

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, 2002	4,257,402	1.49
2003 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
2004 Granted	567,450	2.70
Exercised	(64,900)	1.00
Cancelled	(1,179,850)	1.76
Number of options as at December 31, 2004	3,615,702	1.62

The following table summarizes information about stock options outstanding as at December 31, 2004:

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	1,868,002	4.58	$1.11	1,744,002	$1.03
$1.50 to $1.75	498,000	2.08	$1.58	358,000	$1.58
$2.00 to $3.00	1,249,700	3.65	$2.42	544,200	$2.20
	3,615,702			2,646,202	

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

Effective January 1, 2004, Canadian GAAP requires the fair value of options granted to employees to be expensed over their vesting period. Prior to January 1, 2004, the Company did not recognize any compensation for stock options granted to employees as the granting and exercising of options were accounted for as equity transactions.

The Company adopted the new accounting policy on a retroactive basis with no restatement of prior periods. Accordingly, on January 1, 2004, retained earnings was reduced and contributed surplus was increased by $43,822 to account for the stock option expense that would have been charged to loss in 2002 and 2003 with respect to all options granted since January 1, 2002.

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

	2004	2003
Risk-free interest rate	4.61%	4.47%
Dividend yield	0%	0%
Expected volatility of share price	58.7%	99.7%
Expected life	5 years	5 years

The estimated fair value of options granted during the year ended December 31, 2004 is $0.67 ($1.49 in 2003)

Had the company expensed the fair value of the stock options in prior periods, the following pro forma amounts would have resulted:

(in thousands of Canadian dollars except for per share amounts)	2004 $	2003 $
Net loss	17,152	20,298
Plus: Compensation expense recognized in the statement of earnings	55	–
Less: Total compensation expenses	(55)	(29)
Pro forma net loss	17,152	20,327
Pro forma net loss per share (basic and diluted)	0.17	0.23

15 COMMITMENTS

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

(in thousands of Canadian dollars)	$
2005	1,380
2006	1,348
2007	1,318
2008	1,285
2009	1,206
2010 and thereafter	1,274
	7,811

16 PROVISION RELATED TO A LAWSUIT

Following the judgment in favor of Bank of Montreal issued in December 2004, a non-recurring expense of $2.7 million has been recorded in the consolidated statement of operations and in the accrued liabilities. Subsequent to this event, the Company appealed the judgment in January 2005.

Furthermore, a legal hypothec in the amount of $2,762,458 (with interests and additional indemnity as provided by law) resulting from a judgment, was registered on December 23, 2004 in favour of Bank of Montreal and charging certain movable assets of ProMetic Life Sciences Inc. (“PLI”), including shares held by it in the capital of its subsidiaries and Hemosol Corp., Arriva Pharmaceuticals Inc., Arriva-ProMetic Inc., AM-Pharma Holding B.V., Pathogen Removal and Diagnostic Technologies Inc., any sums lent to them by PLI and sums held by PLI with National Bank Trust Inc.

17 FINANCIAL INSTRUMENTS

(a) Fair value

The carrying value of cash and cash equivalents, accounts receivable, bank loan, cash subject to certain limitations, 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 the investments in Arriva-Pharmaceuticals Inc. and in AM-Pharma Holding B.V. was not readily determinable because they are private companies.

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

(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.

(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.

Financial assets, consisting principally of cash and cash equivalents, and short-term investment and accounts receivable, denominated in pounds sterling totaled £1,337,121 in 2004 and £1,009,375 in 2003 and financial liabilities denominated in pounds sterling totaled £1,022,066 in 2004 and £911,879 in 2003.

The Company does not possess nor issue financial derivative instruments.

18 RELATED-PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with some of its directors or companies which it controls:

(in thousands of Canadian dollars)	2004 $	2003 $
Fees to directors	367	247

These transactions were measured at the exchange amount.

19 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 expenses:

(in thousands of Canadian dollars)	2004 $	2003 $
Net loss	(17,152)	(20,298)
Basic income tax rate	31%	33%
Computed income tax provision	(5,317)	(6,698)
Decrease in income taxes resulting from:		
Unrecorded potential tax benefit arising from current period losses	2,544	3,386
Effect of tax rate differences in foreign subsidiaries	1,285	2,044
Non-taxable items	1,488	1,268
	–	–

19 INCOME TAXES (CONTINUED)

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

(in thousands of Canadian dollars)	2004 $	2003 $
Future income tax assets		
Losses carried forward	12,920	11,831
Share issue expenses	712	1,124
Unused research and development expenses	3,106	1,377
Accounts payable and accrued liabilities	18	200
Deferred revenue	24	178
Capital assets	40	6
	16,820	14,716
Less: valuation allowance	(15,537)	(12,993)
Net future income tax assets	1,283	1,723
Future income tax liabilities		
Accounts receivable	–	(226)
Capital assets	(406)	(471)
Licenses and patents	(784)	(815)
Deferred development costs	(93)	(211)
Net future income tax assets	–	–

As at December 31, 2004, the Company had available the following deductions, losses and credits:

(in thousands of Canadian dollars)	Canada		Foreign countries
	Federal $	Provincial $	$
Research and development expenses, without time limit	10,418	13,214	–
Losses carried forward expiring in:			
2005	550	446	–
2006	2,416	2,473	–
2007	2,092	2,332	–
2008	5,303	5,303	–
2009	5,492	5,311	–
2010	5,810	5,525	–
2011	–	–	471
2012	–	–	1,201
2014	4,039	4,039	
2018	–	–	448
2020	–	–	14
2021	–	–	613
2023	–	–	969
2024	–	–	1,451
Without expiry date	–	–	36,362
Share issue expenses	2,296	2,296	–
	27,998	27,725	41,529

As at December 31, 2004, the Company also had unused federal tax credit available to reduce future Canadian taxable income in the amount of $2,855,600 and expiring between 2009 and 2014. Those tax credits have not been recorded and no future income tax liability has been recorded with respect to those tax credits.

20 ADDITIONAL INFORMATION ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Change in working capital items

(in thousands of Canadian dollars)	2004 $	2003 $
Accounts receivable	(2,112)	607
Inventories	(335)	(58)
Prepaid expenses	169	(272)
Accounts payable and accrued liabilities	2,234	1,476
Deferred revenue	243	–
	199	1,753

(b) Non-cash transactions

(in thousands of Canadian dollars)	2004 $	2003 $
Unpaid additions to capital assets and licenses and patents	837	1,211
Excess of the interest in the joint venture Pathogen Removal and Diagnostic Technologies Inc. over the proportionate share in the consolidated net assets	672	532
Preferred shares retractable at the holder's option	672	532
Unpaid share issue expenses	8	223
Advance to officers presented as a deduction of share capital	–	450
Shares of AM Pharma received as consideration of research and development service rendered	182	–
Shares of Hemosol Corp. received as consideration of entering into a binding memorandum of understanding	–	1,800

(c) Other cash flow information

(in thousands of Canadian dollars)	2004 $	2003 $
Interest paid	127	76
Interest earned	316	467

21 SEGMENTED INFORMATION

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

(a) Revenues by geographic segment[1]

(in thousands of Canadian dollars)	2004 $	2003 $
Canada	4,380	12
United States	836	203
United Kingdom	1,065	811
Europe (excluding United Kingdom)	1,850	263
Other countries	52	30
	8,183	1,319

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

The Company derives significant revenue from certain customers. In 2004 there were two customers which individually accounted for 53% and 16% of revenues respectively (in 2003 three represented 23%, 16% and 16% respectively).

(b) Assets by geographic segment

(in thousands of Canadian dollars)	2004 $	2003 $
Canada	18,928	33,616
United States	288	456
United Kingdom	10,489	8,548
	29,705	42,620

(c) Capital assets and licenses and patents by geographic segment

(in thousands of Canadian dollars)	2004 $	2003 $
Canada	5,076	5,303
United States	87	97
United Kingdom	5,457	3,742
	10,620	9,142

22 GOVERNMENT GRANTS

The Company has received government grants from Isle of Man government for operating and capital expenditures.

For grants received prior to 2004, the Isle of Man government reserves the right to reclaim $1,003,314 ($887,450 in 2003) in part or all of the grants should the Company leave the Isle of Man within five years of receipt or should certain events occur within five years of receipt.

The terms for the grants received in 2004 ($202,720) are fully repayable if the Company leaves the Isle of Man within five years of receipt of the grant and thereafter repayable on a sliding scale for up to a period of ten years.

No provision has been made in these financial statements for any future repayment to the Isle of Man government relating to the above agreement

23 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 by another Pharma creditor a claim against the Company for the recovery of certain amounts due totaling $305,104.

Following the introduction in September 2000 of a claim for damages at the Superior Court by ProMetic Life Sciences Inc. (“PLI”) and ProMetic BioSciences Inc. (“PBI”), a subsidiary of PLI, against a supplier for an amount of $7,726,243, the supplier has introduced in April 2004 a cross demand against PLI and PBI claiming for payment as damages all profits realized from the sale of Agarose beads between October 18, 1999 and October 18, 2004.

After obtaining representation from their legal advisers, 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 settlements occurs.

BOARD OF DIRECTORS

Sadok Besrour (1) (3)
President, Placements
Sadobex Inc.

John Bienenstock
University Professor,
McMaster University
Director, Brain-Body
Institute, St. Joseph's
Healthcare Hamilton

Roger Garon (2)
Chairman of the Board,
Multivet Ltd

Andrew Gertler (3)
Chairman and Chief
Executive Officer,
Neutron Enterprises, Inc.

Barry Gibson
Consultant

Robert Lacroix (1) (3)
Senior Vice-President,
CTI Capital Inc.

Pierre Laurin
Chairman of the Board
President and Chief
Executive Officer,
ProMetic Life Sciences Inc.

Claude Lemire (1)
Consultant

John J. R. Noble (2)
Radiologist

Hans W. Schmid (2)
Chairman of the Board,
ASAT AG Applied Science &
Technology

(1) Audit Committee
(2) Compensation Committee
(3) Corporate Governance Committee

EXTERNAL SCIENTIFIC ADVISORS

In 2004, the Company relied on a network of well-recognized scientists with expertise in different areas such as biotechnology, bioprocessing and biopharmaceuticals:

ENABLING TECHNOLOGY

Max Arella, PhD
Professor, INRS-Institute Armand-Frappier
Adjunct Professor, University of Montréal and P.E.I. University

Ruben G. Carbonnell
Director of the William R. Kenan Junior Institute for Engineering Technology and Science, North Carolina University

John C. Curling, PhD
Consultant

David J. Hammond, PhD
Executive Director, R&D, Plasma Derivatives, American Red Cross

Barry L. Haymore, MD, PhD
Consultant, Microbe Inotech Laboratories Inc.

Robert G. Rohwer, PhD
Director, Molecular Neurovirology Laboratory, VA Maryland Health Care System
International authority in the field of the TSE

Hans W. Schmid, PhD
Chairman of the Board, ASAT AG Applied Science & Technology

David J. Stewart, PhD
Director of Meetings and Courses, Cold Spring Harbor Laboratory

Peter Tijssen, PhD
Professor of virology, INRS-Institute Armand-Frappier

THERAPEUTICS

John Bienenstock, CM, MD (Hon), FRCP, FRPC, FRSC
University Professor, McMaster University
Director, Brain-Body Institute, St. Joseph's Healthcare Hamilton

Dan Chalker, MD
Clinical Professor, Medical College, Georgia
Diplomat, American Board of Dermatology
Fellow, American Academy of Dermatology

Ernest Charlesworth, MD, FRCPC
Associate Professor, University of Texas Medical School at Houston
Dermatologist, allergist and immunologist

Jean-Marie Dupuy, MD, PhD
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Martine Garneau, MD
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David Gratton, MD, FRCPC
Associate Professor of Dermatology, McGill University

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Hematologist, Associate Professor of Medicine at the University of Montréal
Director, Cellular Therapy Laboratory at Maisonneuve-Rosemont Hospital

Hans W. Schmid, PhD
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Sheldon Spector, MD
Clinical Professor, Department of Medicine, UCLA School of Medicine

ADDITIONAL INFORMATION

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On peut se procurer la version française du présent rapport annuel en s'adressant au Service des communications de ProMetic Sciences de la Vie inc.:
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Vous le trouverez aussi sur notre site Internet à l'adresse:
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LISTINGS

Toronto Stock Exchange (PLI.SV)
Outstanding shares as at
December 31, 2004: 99,513,159

INVESTOR RELATIONS

For more information,
please contact:
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investor@prometic.com

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting
of Shareholders will be held on
Wednesday, May 4, 2005 at
11:00 a.m. (EDT) at Le Windsor,
1170 Peel Street, Montréal, Quebec

ANNUAL INFORMATION FORM

The 2004 Annual Information Form of ProMetic Life Sciences Inc. is available upon request from the Company's head office.

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We would like to thank all the ProMetic employees who contributed to this annual report.

Feu Sacré Design Photographer: Jean-François Gratton, Shoot Studio Printed in Canada

ProMetic