

Message to shareholders

November 5, 2003

We are pleased to submit this report for our third quarter ended September 30, 2003. The quarter was marked by the achievement of a major scientific milestone for the Company, namely the release of the interim results of the Phase IIa clinical trial underway with our lead prostate cancer drug, PCK3145. Significant developments also occurred with Colopath[®]/ColorectAlert[™], our diagnostic test for colorectal cancer licensed out to IMI International Medical Innovations Inc. Finally, much progress was also seen with two other programs, Fibrostat[®], our topical cream for the treatment of hypertrophic scars, and PL-100, our HIV/AIDS protease inhibitor. Both programs remain on track to meet their previously-announced milestones.

ONCOLOGY UPDATE – Major milestone achieved

On September 29, we achieved a very significant scientific milestone when we announced positive interim results for PCK3145, our therapeutic peptide in clinical trials for hormone-refractory prostate cancer. The encouraging results clearly demonstrate that PCK3145 has the potential to significantly reduce tumor metastasis in hormone-refractory prostate cancer patients without safety concerns and adverse effects.

The primary objective of this study is to evaluate the safety and the tolerability of PCK3145 administered intravenously in cohorts of escalating doses. The secondary objectives are to determine the pharmacokinetic profile of PCK3145 and to evaluate efficacy by measuring tumour response using CT scans / MRI as well as determination of levels of biochemical markers such as PSA, other tumour markers and hormone levels (testosterone, FSH and LH).

More precisely, the interim results from the first two cohorts comprising a total of eight patients (four patients each at doses of 5 and 20 mg/m²) of Procyon's Phase IIa clinical trial show no drug-related adverse effects and PSA reduction in 50% of the patients. However, the most dramatic and unexpected results were shown in the levels of MMP-9 – Matrix Metalloproteinase-9 – a Gelatinase B enzyme involved in tumor invasion and metastasis. All four patients who had plasma MMP-9 levels over 100 ug/L before treatment had reductions ranging from 34% to 90% after two cycles of treatment. In the patient who received 5 cycles (approximately 6 months treatment), the MMP-9 level went down sequentially from 156 ug/L to 39 ug/L. In the other four patients who had low levels of MMP-9 prior to treatment (22 to 58 ug/L), they remained low and only increased in two cases when cancer relapse was deemed to have occurred.

To date, the second cycle of the third cohort (40 mg/m²) is completed with some patients still receiving treatment. The first patient in the fourth cohort (80 mg/m²) has started receiving treatment. Total recruitment of all patients is expected before the end of the year. Based on these interim clinical results, we are quite confident that PCK3145 will obtain positive results with the next cohorts as well as with the following studies in a larger patient population.

Also during the quarter, our partner for the development and commercialization of Colopath[®]/ColorectAlert[™], IMI International Medical Innovations Inc., presented results from three studies at the 94th Annual Meeting of the American Association for Cancer Research (AACR). Results from the three studies totaling 1,787 subjects show that Colopath[®]/ColorectAlert[™] detects 54% of early-stage colorectal cancers and 49% of all cancers. Subjects who had a positive Colopath[®]/ColorectAlert[™] test were 3.5 times more likely to have cancer than subjects who had a negative test result. An additional finding in the study was the powerful effect of combining two screening tests - Colopath[®]/ColorectAlert[™] and fecal occult blood test (FOBT), which is widely available. Subjects negative for both tests had less than one per cent incidence of cancer while almost a quarter of subjects with positive results for both were confirmed to have cancer by colonoscopy. IMI is expected to initiate a low-risk patient study by year-end.

VIROLOGY UPDATE – Promising drug candidate on track for an IND

The development of Procyon's protease inhibitor, PL-100, is also moving forward as planned. On October 6, we were granted the U.S. patent entitled "Aromatic Derivatives as HIV Aspartyl Protease Inhibitors". The patent covers compounds that have been shown to inhibit the activity of HIV aspartyl protease, an enzyme essential for virus maturation and infectivity.

PL-100 has been shown to possess favorable resistance characteristics on drug and multi-drug resistant strains of HIV and research to date demonstrates that the drug candidate is active against several HIV/AIDS strains resistant to the currently-marketed protease inhibitors. As nearly three-quarters of HIV patients on drug therapy are experiencing drug or multi-drug resistance and about 20% of the newly-diagnosed patients are now presenting with drug resistance, new protease inhibitors are a constant need. Preclinical safety testing is progressing well and we are still on track to file an Investigational New Drug (IND) application and bring PL-100 into the clinic by Fall 2004.

Procyon has been invited to present first-time data on the viral resistance profile of PL-100 at the Protease Targets & Drug Discovery Symposium to be held in Philadelphia, PA from December 8-9, 2003.

DERMATOLOGY UPDATE – Study underway in all clinical centres

Our North American clinical Phase IIb trial for Fibrostat[®] being conducted in collaboration with Biovail Corporation is also progressing very well. Of the seven clinical centres participating in the study, four began enrolling patients during the third quarter and all seven centres are now active. We are still on track to complete the trial and release the study results in Q3 2004. Discussions with several potential partners for Europe and Japan are ongoing and we expect to outlicense the product in these markets once data from the study is available.

CORPORATE UPDATE

Towards the end of the quarter, the Company initiated a program for corporate update presentations in Canada, the United States and Europe. Subsequently, the Company presented at the Orion Securities Healthcare Conference in Toronto, Canada in September and following the end of the quarter, we also were able to present the new PCK3145 data at the BioContact biopharmaceutical partnering symposium in Quebec City and at Techvest's 5th Annual Rodman & Renshaw Healthcare Conference in Boston, MA.

Finally, we are proud to report that the Company has officially been selected to present at the Annual BioEurope Meeting to be held in Frankfurt, Germany, from November 17-19, 2003 where we are also looking forward to meeting with numerous potential commercial partners.

I would like to conclude by thanking all of our shareholders for their support and patience over the last year. As we enter the final quarter of Fiscal 2003, we have laid the groundwork for an exciting and promising year to come and remain focused on achieving our scientific and clinical milestones.

Signed "Hans J. Mäder"
Chairman, President & CEO

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the Company's unaudited consolidated financial statements and related notes included herein, together with our audited consolidated financial statements for the year ended December 31, 2002 and the related notes, which are prepared in accordance with Canadian generally accepted accounting principles.

The results of operations of Pharmacor Inc. have been consolidated in the accounts of the Company since April 17, 2003, the date on which the Company acquired 100% of the outstanding common shares of Pharmacor.

RESULTS OF OPERATIONS

Quarter ended September 30, 2003 compared with the Quarter ended September 30, 2002

The Company incurred a net loss of \$2,772,512 or \$0.04 per common share for the third quarter of 2003, compared with a net loss of \$1,480,239 or \$0.03 per common share for the third quarter of 2002, primarily as a result of an increase in research and development expenses.

Revenues for the current quarter were \$62,278, compared with \$126,748 in the corresponding quarter last year. The lower revenues reflected a decrease in interest income resulting from the reduced level of cash and short-term investments compared to the third quarter last year, together with a reduction in license revenue in the current quarter.

Research and development expenses amounted to \$2,160,536 in the third quarter of 2003, compared with \$1,143,673 in the same quarter last year, an increase of 89%. The principal causes of the increase were the significant spending in the third quarter in the area of virology following the acquisition of Pharmacor Inc. on April 17, 2003 and for the clinical trials underway in the U.K. for PCK3145. Tax credits increased to \$306,268 in the current quarter from \$248,677 in the same quarter last year. The increase reflected primarily the higher expenses in the current quarter, partially offset by a reduction in the rate of Quebec tax credits with effect from June 12, 2003. Research and development expenses represented 69% of total expenses before tax credits in the current quarter, compared with 62% in the corresponding period last year.

General and administrative expenses amounted to \$728,641 in the third quarter of 2003, an increase of \$138,279 over the same period last year. The higher expenses primarily reflected increased spending in the current period for professional fees and included the impact of the Pharmacor acquisition.

Amortization expense increased to \$250,873 in the current quarter, from \$121,334 in the third quarter of 2002. The increase resulted primarily from the expense added by the acquisition of Pharmacor Inc., together with the effect of the change in the rate of amortization of laboratory and office equipment that was implemented effective January 1, 2003.

Nine Months ended September 30, 2003 compared with the Nine Months ended September 30, 2002

A net loss of \$7,526,889 or \$0.12 per common share was incurred in the nine months ended September 30, 2003, compared with a net loss of \$4,714,424 or \$0.10 per common share for the first nine months of 2002, primarily due to higher research and development expenses.

Revenues earned for the nine months ended September 30, 2003 amounted to \$240,973, compared with \$288,165 in the corresponding period last year. The decrease in revenues resulted from a reduction in license revenue, together with lower interest income due to a reduced average level of cash and short-term investments in the current period, partially offset by an improvement in interest rates.

Research and development expenses amounted to \$5,665,120 in the first nine months of 2003, compared with \$3,418,196 in the same period last year. The increase in the current period related primarily to the clinical trials underway in the U.K. for PCK3145 and the validation of the PSP²⁴ serum-based immunoassay, together with spending on research into virology since the April 17, 2003 acquisition of Pharmacor Inc. Tax credits increased to \$832,575 in the first nine months of 2003 from \$617,677 in the same period of 2002, reflecting the higher level of research and development spending, partially offset by a reduction in the rate of Quebec tax credits with effect from June 12, 2003. Research and development expenses represented 66% of total expenses before tax credits in the current period, compared with 61% in the corresponding period last year.

General and administrative expenses for the nine months ended September 30, 2003 were \$2,256,482 compared with \$1,837,637 for the same period last year. The higher level of expenses was primarily for employee compensation and professional fees, and included the impact of the Pharmacor acquisition.

Amortization expense in the first nine months of 2003 amounted to \$615,456, compared with \$362,466 in the same period last year. The increase resulted primarily from the amortization added by the acquisition of Pharmacor Inc., and from the change in the rate of amortization of laboratory and office equipment that was implemented effective January 1, 2003.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and short-term investments at September 30, 2003 totaled \$6,349,739 compared with \$12,746,078 at December 31, 2002. In addition, the loan facility of \$10,000,000 obtained in December 2002 under the Biolevier program of the Government of Quebec has not yet been utilized. The decrease of \$6,396,339 in cash and cash equivalents and short-term investments in the first nine months of 2003 resulted primarily from a total of \$8,492,005 having been utilized to finance operating activities for the nine months period, including an increase of \$1,707,089 in non-cash working capital, primarily reflecting higher investment tax credits recoverable, as the amount relating to 2002 has not yet been received, and lower payables. This was partially offset by an equity financing, arranged concurrent with the Pharmacor acquisition, which raised \$3,212,289, net of expenses. Proceeds of \$9,600 were realized from the issue of common shares on the exercise of stock options. Debt financing costs of \$103,085 were incurred in the current nine months period relating to the \$10,000,000 Biolevier loan facility signed in December 2002. Repayments on long-term debt of Pharmacor Inc., consisting primarily of small business loans and capital leases, were \$41,013 in the period from April 18 to September 30, 2003. A bank loan of \$624,280 in Pharmacor, secured by its investment tax credits recoverable, was repaid in full in July 2003 when the tax credits were received.

An amount of \$156,459 was spent in the current period for the purchase of property, plant and equipment, primarily to equip the Company's expanded laboratory facilities, and \$124,963 for intellectual property. Expenses relating to the acquisition of Pharmacor amounted to \$236,255, while \$159,832 of cash was obtained with the acquisition.

Management believes that it has sufficient funds available, including the amount available from the unused \$10,000,000 loan facility referred to above, to support its ongoing activities into 2005.

Safe Harbour Statement

Certain matters discussed in this management's discussion and analysis of financial condition and results of operations are, by their nature, forward-looking. These forward-looking statements involve risks and uncertainties. Actual events could differ materially from those projected and depend on a number of factors including, but not limited to, changing market conditions, successful and timely completion of clinical studies, uncertainties related to the regulatory approval process and the establishment of corporate alliances.

PROCYON BIOPHARMA INC.
CONSOLIDATED BALANCE SHEETS

As at	September 30, 2003 (unaudited) \$	December 31, 2002 (audited) \$
ASSETS		
Current assets		
Cash and cash equivalents	2,847,455	379,008
Short-term investments	3,502,284	12,367,070
Accounts receivable	120,054	320,001
Investment tax credits recoverable	1,913,876	895,000
Prepaid expenses	190,034	52,806
	8,573,703	14,013,885
Property, plant and equipment	1,109,279	464,059
Intellectual property	7,432,958	4,721,827
Investments (note 3)	7,001	53,001
Deferred financing fees	279,259	176,174
	17,402,200	19,428,946
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	829,742	1,513,578
Deferred revenue	14,033	37,883
Current portion of long-term debt	46,047	-
	889,822	1,551,461
Long-term debt	51,933	-
Convertible debenture	50,000	50,000
Preferred shares	4,000,000	4,000,000
	4,991,755	5,601,461
Shareholders' equity (note 4)		
Share capital	47,843,613	42,172,621
Warrants	1,076,867	952,214
Other paid-in capital	1,814,192	1,499,988
Equity component of convertible debenture	675,000	675,000
Deficit	(38,999,227)	(31,472,338)
	12,410,445	13,827,485
	17,402,200	19,428,946

See accompanying notes

PROCYON BIOPHARMA INC.
CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT
(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2003	2002	2003	2002
	\$	\$	\$	\$
REVENUES				
License revenue	4,417	20,017	23,850	60,050
Interest and other income	57,861	106,731	217,123	228,115
	62,278	126,748	240,973	288,165
EXPENSES				
Research and development	2,160,536	1,143,673	5,665,120	3,418,196
Research and development tax credit	(306,268)	(248,677)	(832,575)	(617,677)
General and administrative	728,641	590,362	2,256,482	1,837,637
Amortization of property, plant and equipment	80,613	20,566	181,021	60,418
Amortization of intangibles	170,260	100,768	434,435	302,048
Write-down of investment	-	-	46,000	-
Financial charges	1,008	295	17,379	1,967
	2,834,790	1,606,987	7,767,862	5,002,589
Net loss	(2,772,512)	(1,480,239)	(7,526,889)	(4,714,424)
Adjustment to terms of outstanding warrants	-	-	-	(350,000)
Deficit, beginning of period	(36,226,715)	(27,829,139)	(31,472,338)	(24,244,954)
Deficit, end of period	(38,999,227)	(29,309,378)	(38,999,227)	(29,309,378)
Basic and diluted loss per share	(0.04)	(0.03)	(0.12)	(0.10)
Weighted average number of common shares outstanding	67,179,991	52,259,036	61,416,098	48,943,336

See accompanying notes

PROCYON BIOPHARMA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2003	2002	2003	2002
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(2,772,512)	(1,480,239)	(7,526,889)	(4,714,424)
Add non-cash items				
Amortization of property, plant and equipment	80,613	20,566	181,021	60,418
Amortization of intellectual property	170,260	100,768	434,435	302,048
Write-down of investment	-	-	46,000	-
Services paid by issuance of stock options (note 4)	-	-	80,517	90,000
	(2,521,639)	(1,358,905)	(6,784,916)	(4,261,958)
Net change in non-cash working capital balances				
Related to operations	231,887	(441,483)	(1,707,089)	(1,592,204)
Cash flows related to operating activities	(2,289,752)	(1,800,388)	(8,492,005)	(5,854,162)
INVESTING ACTIVITIES				
Acquisition of intellectual property	(60,237)	(83,732)	(124,963)	(136,736)
Acquisition of property, plant and equipment	(31,607)	(23,220)	(156,459)	(47,137)
Cash obtained on acquisition of business	-	-	159,832	-
Acquisition expenses	-	-	(236,255)	-
Purchase of short-term investments	(3,502,284)	(2,472,250)	(9,452,184)	(7,935,065)
Maturities of short-term investments	4,957,420	5,462,815	18,316,970	10,488,033
Cash flows related to investing activities	1,363,292	2,883,613	8,506,941	2,369,095
FINANCING ACTIVITIES				
Issuance of units	-	-	3,530,000	10,001,520
Unit issue expenses	-	(146,634)	(317,711)	(1,082,731)
Issuance of common shares	9,600	-	9,600	510,860
Debt financing costs	(25,320)	-	(103,085)	-
Repayment of long-term debt	(15,602)	-	(41,013)	-
Repayment of bank indebtedness	(624,280)	-	(624,280)	-
Issuance of preferred shares	-	-	-	4,000,000
Cash flows related to financing activities	(655,602)	(146,634)	2,453,511	13,429,649
Net increase (decrease) in cash and cash equivalents	(1,582,062)	936,591	2,468,447	9,944,582
Cash and cash equivalents, beginning of period	4,429,517	9,548,925	379,008	540,934
Cash and cash equivalents, end of period	2,847,455	10,485,516	2,847,455	10,485,516

Supplemental cash flow information

Cash paid during the period for interest	2,608	-	15,267	-
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See accompanying notes

Procyon Biopharma Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003

(unaudited)

1. Basis of presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of application as the most recent annual financial statements, except for the change in the rates of amortization of laboratory and office equipment referred to below. The interim financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the most recent annual financial statements as at and for the year ended December 31, 2002.

2. Amortization of laboratory and office equipment

Following a review by management of the expected useful lives of laboratory and office equipment, the amortization rates were revised effective January 1, 2003. From that date, the equipment is being amortized on the declining balance basis at annual rates of 30% for laboratory equipment and 20% for office equipment. Prior to the change, both laboratory and office equipment were amortized at an annual rate of 10% of the declining balance. The effect of this change is not material.

3. Investments

As at June 30, 2003 the Company wrote down the carrying value of a warrant to purchase 75,000 common shares of IMI International Medical Innovations Inc. that expires on March 19, 2004 from \$53,000 to \$7,000, management's estimate of the fair value of the warrant at June 30, 2003, using the Black-Scholes option pricing model, using a volatility factor of 47% and a risk-free interest rate of 3%. The write-down was recorded as an expense during the second quarter of 2003.

4. Share capital

Common shares

The Company is authorized to issue an unlimited number of common shares.

	Number of shares	Stated capital \$
Balance as at December 31, 2002	52,411,708	42,172,621
Issued in exchange for shares of Pharmacor Inc.	7,000,000	2,800,000
Issued on conversion of units	7,844,445	3,137,778
Unit issuance costs – cash	-	(276,386)
Issued for cash on exercise of stock options	16,000	9,600
<u>Balance as at September 30, 2003</u>	<u>67,272,153</u>	<u>47,843,613</u>

On April 17, 2003, the Company issued 7,000,000 common shares in exchange for 100% of the outstanding common shares of Pharmacor Inc., as discussed in Note 5 below. In addition, the Company completed a concurrent \$3,250,000 financing by way of a private placement of 7,222,223 units at \$0.45 each before cash expenses. Each unit consists of one Procyon common share and 0.4153845 common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one additional common share for a period of two years from the date of filing of an IND of Pharmacor's lead compound, at a price per common share equal to the greater of \$0.45 and the market price of the Company's common shares immediately prior to the IND filing. Also on April 17, 2003, a creditor of Pharmacor purchased an additional 622,222 units on the same terms and conditions, for further proceeds of \$280,000.

Employee share purchase loan program

On February 28, 2003 the Board of Directors adopted a resolution extending the term of the two loans outstanding under this program from April 11, 2003 to April 11, 2013. The loans will be repayable in full when the market price of the common shares of the Company reaches a market value of \$2.65 for ten consecutive trading days or, if earlier, upon termination of the borrowers' employment with the Company, subject to certain conditions. As at September 30, 2003 two loans to directors and officers totaling \$200,000 were outstanding under the program, unchanged from December 31, 2002.

Procyon Biopharma Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003

(unaudited)

Stock option plan

On June 4, 2003, the maximum number of common shares to be issued pursuant to the Company's stock option plan was increased to 6,725,615. As at September 30, 2003, 3,952,250 stock options were outstanding compared to 3,765,300 at December 31, 2002. During the nine months ended September 30, 2003, 506,500 options with a fair value of \$90,119 were granted, 16,000 options were exercised and 303,550 options were forfeited. All options granted were with exercise prices equal to the market price of the Company's shares at the date of grant. No compensation cost has been recognized for stock options granted to employees and directors. Had compensation cost been determined based on the fair value of options as of the date of grant using the Black-Scholes option pricing model, using a volatility factor of approximately 60% and a risk-free interest rate of from 3% to 4% and been amortized over the vesting period of the options, the Company's net loss and loss per common share would have been amended as follows:

		Three months ended September 30, 2003	Nine months ended September 30, 2003
Net loss	As reported	\$(2,772,512)	\$(7,526,889)
	Pro forma	(2,793,527)	(7,582,559)
Basic and diluted earnings per share	As reported	\$(0.04)	\$(0.12)
	Pro forma	(0.04)	(0.12)

Warrants

	Number	\$
Balance as at December 31, 2002	9,643,673	952,214
Issued on conversion of units	3,258,461	392,222
Unit issuance costs - cash	-	(41,325)
Issued in connection with Pharmacor acquisition	150,000	7,443
Issued to Investissement Quebec (see below)	1,503,759	-
Expired warrants	(3,894,780)	(233,687)
<u>Balance as at September 30, 2003</u>	<u>10,661,113</u>	<u>1,076,867</u>

A total of 3,894,780 warrants relating to the private placement of July 31, 2000 expired on April 10, 2003. On April 17, 2003, the Company issued 3,258,461 warrants associated with the sale of units referred to under "Common shares" above. These warrants will be exercisable only in the event that an IND is filed within 24 months from the date of completion of the financing. Also on April 17, 2003, the Company issued an additional 150,000 warrants to purchase common shares at an exercise price of \$1.35 per share, expiring on April 17, 2006 in connection with the acquisition of intellectual property associated with the Pharmacor acquisition. These warrants were recorded at \$7,443, based on their fair value at the date of issue calculated using the Black-Scholes option pricing model, applying a volatility factor of 61% and a risk-free interest rate of 3%.

On February 6, 2003, in connection with the \$10,000,000 loan agreement with Investissement Quebec (IQ) under the Biolevier program entered into on December 13, 2002, the Company issued warrants to purchase 1,503,759 common shares at an exercise price of \$0.56 per share, expiring a minimum of 5 years from the date of their issuance. Should the Toronto Stock Exchange permit the extension of the term of these warrants past 5 years, the life of the warrants could be extended. According to the terms of the loan agreement, at least 50% of the warrants will become exercisable as of the first drawdown on the loan. Furthermore, up to 75% will become exercisable prorata if the Company draws between 50% and 75% of the available facility, with the remainder of the warrants becoming exercisable when 75% of the facility is utilized. The Company will record deferred financing fees equivalent to the fair value of the warrants on the date they become exercisable, calculated using the Black-Scholes option pricing model. The deferred financing fees will be amortized by a charge to income over the 10-year term of the loan, using the effective yield method.

Procyon Biopharma Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003

(unaudited)

Other paid-in capital

	\$
Balance as at December 31, 2002	1,499,988
Warrants expired on April 10, 2003	233,687
Options issued to consultants	45,000
Options granted to officer	35,517
<u>Balance as at September 30, 2003</u>	<u>1,814,192</u>

An amount of \$45,000, representing the balance of the fair value of options to purchase common shares granted to consultants in 2002 and being recorded as an expense over their vesting period, was expensed in the first half of 2003, with a corresponding credit to other paid-in capital. Also, \$35,517 was credited to other paid-in capital for the fair value of stock options granted to an officer of the Company on April 1, 2003 in lieu of a cash bonus payment.

5. Acquisition of business

Effective April 17, 2003, the Company acquired 100% of the outstanding shares of Pharmacor Inc., a Montreal-based biopharmaceutical company committed to the discovery and development of innovative therapeutic agents for the treatment of HIV/AIDS, in exchange for 7,000,000 common shares of Procyon valued at \$2,800,000, excluding acquisition costs of \$243,698. The acquisition has been accounted for by the purchase method. The results of operations of Pharmacor have been consolidated with the accounts of the Company since the date of acquisition.

The allocation of the purchase price is as follows:

	\$
Cash and cash equivalents	159,832
Accounts receivable	69,753
Investment tax credits recoverable	1,018,664
Prepaid expenses	42,038
Property, plant and equipment	669,782
Intellectual property	3,020,604
Total assets acquired	4,980,673
Bank indebtedness	624,280
Accounts payable and accrued liabilities	1,173,702
Long-term debt	138,993
Total liabilities assumed	1,936,975
Net assets acquired	3,043,698
Consideration represented by:	
Cash	236,255
Share capital (note 4)	2,800,000
Fair value of stock options granted	7,443
	<u>3,043,698</u>

Of the assets acquired, \$3,020,604 was assigned to intellectual property representing patented technology. This intellectual property is being amortized over a fifteen-year period.

The bank indebtedness of \$624,280 above was secured by the investment tax credits recoverable. In July 2003, the investment tax credits were received and the bank indebtedness was repaid in full.