



Message to shareholders,

May 12, 2003

We are very pleased to submit this report on the results for the first quarter ended March 31, 2003. This was a significant quarter for the Company as we worked towards the achievement of an important corporate milestone, a business acquisition accompanied by a concurrent financing, while assuring continued pre-clinical and clinical progress with all of our technologies.

During the quarter, we held a pre-IND meeting with the FDA to discuss available clinical data on Fibrostat[®] as well as the protocols for the upcoming Phase IIb clinical trial. The meeting was conducted in collaboration with Biovail Corporation, Procyon's partner for the development and commercialization of Fibrostat[®] in North America. Filing of the IND protocol for the Phase IIb clinical trial is expected shortly, with subsequent clearance after 30 days.

Our other out-licensed product, Colopath[®]/ColorectAlert[™], a simple screening and monitoring test for colorectal cancer, underwent a 1,787 subject clinical study at St. Michael's Hospital in Toronto. In the study conducted by IMI International Medical Innovations Inc., Procyon's partner which holds the worldwide rights to Colopath[®]/ColorectAlert[™], the test detected 54 per cent of early-stage cancers by analyzing the rectal mucus. Patients who had a positive Colopath[®]/ColorectAlert[™] test were 3.5 times more likely to have cancer than patients who had a negative test result. The results of the study were to be presented at the 94th Annual American Association for Cancer Research (AACR) meeting, in Toronto, Canada, on April 5-9, 2003. However, the meeting was postponed due to the SARS outbreak and has been rescheduled to July 11-14, 2003 in Washington, D.C. Results of the study will be presented at that time.

Also during the first quarter, Procyon continued enrollment of late-stage hormone refractory prostate cancer patients in its Phase IIa clinical trial with the peptide PCK3145, currently being conducted in the U.K. by Professor Robert Hawkins, an eminent medical oncologist at the Christie Cancer Research Centre in Manchester. Enrolment of the second four-patient cohort was initiated and completed by the end of February, for a total of eight patients enrolled in the study. Some of the patients have received up to four cycles of treatment and preliminary interim results are expected later this year.

Procyon's clinical development team also conducted a Medical Expert Team meeting with opinion leaders from the United States and Canada, to discuss the development program for the PSP⁹⁴ Serum-based immunoassay. At the end of the first quarter, the external validation study for the assay was partially completed; completion is expected for June 2003. Following a rigorous clinical evaluation study this year, the Company intends to file for a 510k registration with the FDA early in 2004.

During the past quarter, four poster presentations from Procyon scientists and collaborators were accepted for the 94th Annual meeting of the AACR. Three of the posters relate to the PSP⁹⁴ technology platform while the fourth poster reports on the potential anti-angiogenic function of the Anti-Nucleosome Antibodies (ANsA) platform technology. Following large scale production challenges relating to the monoclonal antibody c2C5 resulting from the ANsA technology, we are in the process of resolving the production yield issue through re-engineering of the cell line.

Finally, during the first quarter, we worked towards achieving an important corporate milestone, namely the acquisition of Pharmacor Inc., a company committed to the discovery and development of therapeutic agents for HIV/AIDS, and a \$3.25 million concurrent financing, both of which were completed on April 17. This acquisition meets our corporate objective, which centers on the growth of Procyon through the diversification of our product pipeline, while at the same time bringing a drug-discovery capability in-house.

Through our activities we remain committed to achieving clinical milestones as well as enhancing shareholder value by adding novel technologies aimed at significant markets with unmet medical needs.

I would like to conclude by welcoming all of our new employees and by thanking everyone who has worked towards the successful completion of this transaction.

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.

RESULTS OF OPERATIONS

Quarter ended March 31, 2003 compared with the Quarter ended March 31, 2002

The Company incurred a net loss of \$1,652,320 or \$0.03 per common share for the first quarter of 2003, compared with a net loss of \$1,612,835 or \$0.04 per common share for the same quarter last year.

Revenues for the current quarter were \$91,414, compared with \$71,337 in the corresponding quarter last year. The higher revenues reflected an increase in interest income due to the higher level of cash and short-term investments in the current quarter and the improvement in interest rates over the first quarter of 2002, partially offset by a reduction in license revenue.

Research and development expenses amounted to \$1,122,460 in the first quarter of 2003, compared with \$1,235,285 in the same quarter last year, a decrease of 9%. A reduced level of spending on Fibrostat[®] compared with the first quarter of 2002 was partially offset by higher spending in the current quarter related to the clinical trials underway in the U.K. for PCK3145. Tax credits increased marginally to \$181,000 in the current quarter from \$179,000 in the same quarter last year. Research and development expenses represented 58% of total expenses before tax credits in the current quarter, compared with 66% in the corresponding period last year.

General and administrative expenses amounted to \$663,552 in the first quarter of 2003, an increase of \$156,592 or 31% over the same period last year. The higher expenses primarily reflected increased spending in the current period for professional fees, employee compensation and travel expenses.

Amortization expense increased to \$137,686 from \$120,654 in the first quarter of 2002. The increase resulted primarily from a 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 March 31, 2003 totaled \$10,155,791 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 \$2,590,287 in cash and cash equivalents and short-term investments in the first quarter of 2003 resulted primarily from a total of \$2,479,201 having been utilized to finance operating activities for the quarter, including an increase of \$964,567 in non-cash working capital. In addition, \$85,142 was spent in the quarter for the purchase of property, plant and equipment, primarily to equip the Company's expanded laboratory facilities, and \$12,575 for intellectual property.

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. For a number of reasons, actual results could differ materially.

PROCYON BIOPHARMA INC.
CONSOLIDATED BALANCE SHEETS

As at

	March 31, 2003 (unaudited) \$	December 31, 2002 (audited) \$
ASSETS		
Current assets		
Cash and cash equivalents	5,704,761	379,008
Short-term investments	4,451,030	12,367,070
Accounts receivable	170,222	320,001
Investment tax credits recoverable	1,076,000	895,000
Prepaid expenses	105,002	52,806
	11,507,015	14,013,885
Property, plant and equipment	515,760	464,059
Intellectual property	4,630,157	4,721,827
Investments	53,001	53,001
Deferred financing fees	189,543	176,174
	16,895,476	19,428,946
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	647,444	1,513,578
Deferred revenue	22,867	37,883
	670,311	1,551,461
Convertible debenture	50,000	50,000
Preferred shares (note 3)	4,000,000	4,000,000
	4,720,311	5,601,461
Shareholders' equity (note 3)		
Share capital	42,172,621	42,172,621
Warrants	952,214	952,214
Other paid-in capital	1,499,988	1,499,988
Equity components of convertible debenture	675,000	675,000
Deficit	(33,124,658)	(31,472,338)
	12,175,165	13,827,485
	16,895,476	19,428,946

See accompanying notes

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

	Three months ended	
	March 31,	
	2003	2002
	\$	\$
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REVENUES		
License revenue	15,017	20,017
Interest income	76,397	51,320
	91,414	71,337
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EXPENSES		
Research and development	1,122,460	1,235,285
Research and development tax credits	(181,000)	(179,000)
General and administrative	663,552	506,960
Amortization of property, plant and equipment	33,441	19,905
Amortization of intellectual property	104,245	100,749
Financial charges	1,036	273
	1,743,734	1,684,172
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Net loss	(1,652,320)	(1,612,835)
Deficit, beginning of period	(31,472,338)	(24,244,954)
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Deficit, end of period	(33,124,658)	(25,857,789)
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Basic and diluted loss per share	(0.03)	(0.04)
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Weighted average number of common shares outstanding	52,335,372	45,210,669
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See accompanying notes

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

	Three months ended	
	March 31,	
	2003	2002
	\$	\$
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OPERATING ACTIVITIES		
Net loss	(1,652,320)	(1,612,835)
Items not affecting cash		
Amortization of property, plant and equipment	33,441	19,905
Amortization of intellectual property	104,245	100,749
	(1,514,634)	(1,492,181)
Net change in non-cash working capital balances related to operations	(964,567)	(867,774)
Cash flows related to operating activities	(2,479,201)	(2,359,955)
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INVESTING ACTIVITIES		
Acquisition of intellectual property	(12,575)	(2,885)
Acquisition of property, plant and equipment	(85,142)	(2,530)
Purchase of short-term investments	(992,480)	-
Maturities of short-term investments	8,908,520	2,942,738
Cash flows related to investing activities	7,818,323	2,937,323
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FINANCING ACTIVITIES		
Issuance of common shares	-	447,250
Issuance of preferred shares	-	4,000,000
Debt financing costs	(13,369)	-
Cash flows related to financing activities	(13,369)	4,447,250
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Net increase in cash and cash equivalents	5,325,753	5,024,618
Cash and cash equivalents, beginning of period	379,008	540,934
Cash and cash equivalents, end of period	5,704,761	5,565,552
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Supplemental cash flow information		
Cash paid during the period for interest	-	-
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See accompanying notes

Procyon Biopharma Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 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. Share capital

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 March 31, 2003 two loans to directors and officers totaling \$200,000 were outstanding under the program, unchanged from December 31, 2002.

Stock option plan

As at March 31, 2003, 3,857,900 stock options were outstanding compared to 3,765,300 at December 31, 2002. During the three months ended March 31, 2003, 107,500 options were granted, no options were exercised and 14,900 options were forfeited. The Company applies the intrinsic value based method of accounting for stock-based compensation awards granted to employees. Accordingly, no compensation cost has been recognized for stock options granted to employees and directors.

Procyon Biopharma Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2003

(unaudited)

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 61% and a risk-free interest rate of 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 March 31, 2003
Net loss	As reported	\$(1,652,320)
	Pro forma	(1,668,062)
Basic and diluted earnings per share	As reported	\$(0.03)
	Pro forma	(0.03)

Warrants issued to Investissement Quebec

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

March 31, 2003

(unaudited)

4. Subsequent events

On April 17, 2003 the Company acquired all 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. The Company also completed a concurrent \$3,250,000 financing by way of a private placement of 7,222,223 units at a price of \$0.45 per unit. 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. The 3,000,000 warrants resulting from this financing will be exercisable only in the event that an IND is filed within 24 months from the date of completion of the financing. In addition, 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.