



Message to shareholders,

May 7, 2004

We are very pleased to submit this report on the results for the first quarter ended March 31, 2004. This was a significant quarter for Procyon as we achieved a very important corporate milestone with the successful completion of a \$17.25 million financing closed on April 7, 2004. This added capital provides the Company with sufficient resources to finance our activities during the next 30 months and at the same time brings enough flexibility to help us grow the Company for the future.

During the quarter, we have also achieved significant clinical milestones with our three near-term value drivers, namely: PCK3145, our treatment for prostate cancer currently undergoing a Phase IIa trial; Fibrostat[®], our topical cream for hypertrophic scars licensed out to Biovail Corporation for North America; and PL-100, our protease inhibitor with a very unique resistance profile.

ONCOLOGY UPDATE – Further positive clinical results with PCK3145

In mid-February, we reported additional positive results from the Phase IIa clinical trial with PCK3145, our therapeutic peptide indicated for metastatic hormone-refractory prostate cancer. The new data from the third cohort confirms PCK3145's safety profile as well as potential therapeutic effect on the reduction of metastasis as suggested by the results of the first two cohorts released last September. The results from the total of twelve patients so far confirm PSA (Prostate Specific Antigen) reduction or stabilization in nine patients and reduction or normalization of plasma MMP-9 (Matrix metalloproteinase 9), an enzyme involved in angiogenesis, tumor invasion and metastasis, in all of the patients. No drug-related adverse effects were observed and the drug was well-tolerated in all 12 patients. These results were well-received at the 95th Annual Meeting of the American Association for Cancer Research (AACR) where Dr. Chandra J. Panchal, Senior Executive Vice-President, New Technologies and Preclinical Research at Procyon, presented a scientific poster.

During the quarter, we also reported that studies conducted in the laboratory of Dr. Shafaat Rabbani of the McGill University Health Centre have shown that PCK3145 significantly reduced skeletal metastasis as well as tumor burden in an experimental rat prostate cancer model. These studies validate PCK3145's potential to reduce and/or prevent tumor metastasis.

The treatment phase for the fourth and final cohort is now completed and we expect to disclose the results of the study during the second quarter of 2004. Professor Robert Hawkins of the University of Manchester, UK, and the Principal Investigator of the Phase IIa trial will present a scientific poster at the 2004 ASCO Meeting on June 6, 2004, in New Orleans, Louisiana. This poster will present for the first time the complete detailed data for the open-label dose-escalating Phase IIa human clinical trial.

VIROLOGY UPDATE – New US patent on compounds with protease inhibitory activity

In January, we were granted a ninth US patent covering a series of novel small molecules that demonstrate inhibitory activity against the HIV aspartyl protease and the whole virus in cell cultures. As new protease inhibitors are constantly needed due to the resistance issue in HIV/AIDS, Procyon's objective is to build a significant library of compounds in order to develop additional protease inhibitors in the near future.

The development program for PL-100, our protease inhibitor with a favorable resistance profile, is on track and we expect to file an IND during the third quarter of this year in order to commence Phase I/II clinical trials shortly thereafter.

DERMATOLOGY UPDATE – Presentation at three major dermatology conferences

The Phase IIb clinical trial with Fibrostat[®], our topical cream indicated for hypertrophic scarring following surgery and burns, is moving forward well in 12 centers across Canada and the United States and we are on track to complete the trial this year.

Additional data on the exact mode-of-action of Fibrostat[®] will be described during oral presentations at the 14th Annual Meeting of the Wound Healing Society in Atlanta, USA, as well as at the 2nd Annual Meeting of the World Union of Wound Healing Societies in Paris, France. Moreover, Dr. Claire Linge, RAFT Group Leader in Cell Biology and a collaborator to Procyon gave an oral presentation following the end of the quarter on a cellular model for hypertrophic scar at the Annual Meeting of RAFT Institute of Plastic Surgery.

Discussions with several potential partners for Europe and Japan are ongoing and we expect to out-license the product in these markets once data from the ongoing study are available.

CORPORATE UPDATE – Consolidating our management team and our financial position

In February, we appointed James W. Sutton, M.D., as Vice-President, Clinical Research & Regulatory Affairs. Dr. Sutton has extensive international experience in clinical trials with pharmaceutical companies and he will manage the clinical development and regulatory activities at Procyon. He will also be responsible for the design of the Phase I/II trial for PL-100, the Phase IIb for PCK3145, and the Phase III for Fibrostat[®]. As we are rapidly progressing towards being a late-stage biotechnology company, Dr. Sutton's expertise will be key to the success of Procyon.

Finally, we are pleased to announce the successful completion of a 15,000,000 Unit offering at a price of \$1.00 per unit for total gross proceeds of \$15 million along with the exercise in full of the over-allotment option for additional gross proceeds of \$2.25 million. The exercise in full of the over-allotment option brought the total gross proceeds of the financing to \$17.25 million. The offering was made through a syndicate of underwriters led by Dundee Securities Corporation and including Canaccord Capital Corporation, Loewen, Ondaatje, McCutcheon Limited and Research Capital Corporation.

The financing further reinforces our shareholder base with new and important European and North American institutions and this added capital provides Procyon with sufficient resources to finance its activities during the next 30 months.

I would like to conclude by welcoming all of our new shareholders. We remain committed to enhancing shareholder value by achieving significant corporate and clinical milestones and we are well-positioned to deliver on the anticipated milestones for 2004.



Hans J. Mäder
Chairman, President & Chief Executive Officer

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, 2003 and the related notes, which are prepared in accordance with Canadian generally accepted accounting principles. Some of the statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. These statements relate to future events or to Procyon's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. All amounts shown are stated in Canadian dollars. This review was prepared by management from information available as at April 27, 2004. Additional information relating to the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

OVERVIEW

Procyon Biopharma Inc. is a publicly-traded Canadian biotechnology company actively engaged in the discovery and development of innovative therapeutics and diagnostics in the fields of oncology and infectious diseases. The mission of the Company is to identify leading-edge technologies, bring them quickly to advanced human clinical trials and license them to pharmaceutical companies for further development and commercialization. Procyon receives from licensee partners upfront and milestone payments, as well as royalty revenues upon commercialization.

Procyon's products and technologies are steadily advancing from research through development, preclinical and clinical studies. As a result, today Procyon has three near-term value drivers, namely PCK3145, a treatment for prostate cancer currently undergoing a Phase IIa trial; Fibrostat[®], a topical cream for hypertrophic scars licensed out to Biovail Corporation in North America currently in a Phase IIb trial; and PL-100, a very unique protease inhibitor that is currently in the pre-clinical phase. The Company is also developing a medical device, PSP⁹⁴ Serum-based immunoassay, a reliable, quick-and-easy test to detect and monitor prostate cancer, and has licensed Colopath[®], a simple screening and monitoring test for colorectal cancer, to IMI International Medical Innovations Inc. The Company is also developing two other therapeutics: ANsA, a technology platform with potential therapeutic applications to various cancers; and PL-2500, an integrase inhibitor that addresses a novel mechanism of action for the treatment of HIV/AIDS.

The Company has incurred substantial losses since its inception, due primarily to its expenditures for research and development activities. We expect to incur further losses during the next several years resulting from the continuation of our ongoing clinical trials and pre-clinical development activities.

Revenues

We have not generated any significant revenues from product sales since 1997. Revenues have been earned primarily from research and development tax credits and interest on available cash balances. We expect to continue to receive such revenues during the next several years, as well as licensing revenues to be earned upon attaining certain milestones.

Research and Development Expenses

Our research and development expenses consist primarily of salaries and related personnel costs, fees paid to external service providers, laboratory supplies and costs for leasing of facilities and equipment. In the first quarter of 2004, fees paid to external service providers were primarily related to Phase IIb clinical trials for Fibrostat[®], Phase IIa trials for PCK3145 and pre-clinical costs for PL-100.

We expect our research and development expenses to increase materially during the next few years as we continue our clinical trials for our more advanced products, while continuing to advance our other research programs. However, we are unable to estimate the specific timing and future costs of our research and development programs.

Significant Projects

Each of our product candidates, which were discussed in the Overview section, will have to complete the necessary phases of clinical trials and obtain regulatory approval before they can generate significant revenues. The costs to complete these clinical trials and to obtain regulatory approval are significant and the costs associated with this process are expected to increase our research and development expenses materially over the next several years. These costs are expected to be borne to some extent by various corporate partners under research collaboration and licensing agreements.

We also have a number of other discovery and development programs to identify and develop other therapeutic and diagnostic products. This process is part of our ongoing research and development activities and, until product candidates are identified, significant clinical expenditures are not anticipated.

Segmented Information

The Company operates in only one segment, which is the sector related to the development and commercialization of diagnostic and therapeutic drugs. All revenues were earned in Canada, most operations are carried out in Canada and all assets, with the exception of certain intellectual property, are located in Canada.

RESULTS OF OPERATIONS

Quarter ended March 31, 2004 compared with the Quarter ended March 31, 2003

The Company incurred a net loss of \$3,039,275 or \$0.05 per common share for the first quarter of 2004, compared with a net loss of \$1,652,320 or \$0.03 per common share for the same quarter last year.

Revenues for the current quarter were \$63,679, compared with \$91,414 in the corresponding quarter last year. The lower revenues resulted from a reduction in interest income, due to the lower level of cash and short-term investments and of interest rates in the current quarter compared to the first quarter of 2003, together with lower license revenue.

Research and development expenses amounted to \$2,246,633 in the first quarter of 2004, compared with \$1,122,460 in the same quarter last year. A higher level of spending on Fibrostat[®] compared with the first quarter of 2003 was the primary cause of the increase, together with the expenditures in the current quarter in the Virology division, which was established following the acquisition of Pharmacor Inc. in April 2003 and therefore did not impact the results for the first quarter of 2003. Tax credits increased to \$293,000 in the current quarter from \$181,000 in the same quarter last year. Research and development expenses represented 66% of total expenses before tax credits in the current quarter, compared with 58% in the corresponding period last year.

General and administrative expenses amounted to \$802,300 in the first quarter of 2004, an increase of \$131,548 or 20% over the same period last year. The higher expenses primarily reflected increased spending in the current period for professional fees, investor relations and recruitment expenses.

Amortization expense increased to \$266,184 from \$137,686 in the first quarter of 2003. The increase resulted primarily from the amortization of equipment and intellectual property associated with the Pharmacor acquisition in April 2003, together with the amortization of the deferred financing costs incurred for the Biolevier loan facility.

Financial charges increased to \$93,925 from \$1,036 in the first quarter last year. The increase was due to the interest on the Biolevier loan, which is being capitalized and added to the outstanding balance of the loan.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations and its acquisitions of technology and capital assets primarily through private placements and public issues of common shares, scientific research investment tax credits, interest income and amounts received under licensing agreements for certain of its products. In addition, a loan agreement entered into in December 2002 expanded the Company's financing base by providing it with a loan facility of \$10 million obtained under the Biolevier program of the Government of Quebec, from which an amount of \$5 million was drawn in November 2003, leaving an amount of \$5 million available for future use.

Cash and cash equivalents and short-term investments totaled \$6,569,721 at March 31, 2004, compared with \$9,917,167 at December 31, 2003. The decrease of \$3,347,446 in cash and cash equivalents and short-term investments in the first quarter of 2004 resulted from a total of \$3,400,757 having been utilized to finance operating activities for the quarter, including an increase of \$783,703 in non-cash working capital. In addition, \$24,419 was spent in the quarter for the purchase of property, plant and equipment and \$2,962 for intellectual property. An amount of \$83,310 was generated from the issue of common shares associated with the exercise of stock options.

The Biolevier loan does not adversely impact the Company's liquidity at this time, as no capital or interest is payable on the loan in the first three years following the initial disbursement in November 2003.

Management believes that it has sufficient funds available, including the net cash proceeds of approximately \$15.7 million generated from the sale of 17.25 million Units on April 7, 2004 and the balance of \$5 million available from the Biolevier loan facility referred to above, to support its ongoing activities during the next 30 months. The Units issued through a public offering on April 7, 2004 at \$1.00 per Unit, each comprised one common share of the Company and one-half of a common share purchase warrant. Each whole purchase warrant entitles the holder to purchase one additional common share of the Company at a price of \$1.25 at any time during the 24 months following the closing.

Contractual Obligations

A summary of the Company's contractual obligations as at March 31, 2004 is as follows:

(in thousands of dollars)	Payments due by period				
	Less than 12 months	12 to 36 months	36 to 60 months	After 60 months	Total
Operating leases	267	190	133	96	686
Biolevier loan facility	-	-	Note 1		5,136
Convertible debenture	-	-	-	50	50
Preferred shares	Note 2				4,000
Royalty obligations	10	20	20	Note 3	50
Purchase obligations (Note 4)	91	182	23	-	296
Total	368	392	176	146	10,218

Notes:

1. Under the terms of the Biolevier loan agreement, the loan is for a 10 year term from the date of the first disbursement, November 19, 2003, and bears interest at the Canadian prime rate plus 3%, which can be converted to a fixed rate after the final loan disbursement. No capital or interest is repayable during the first three years after the initial disbursement. Thereafter, interest is payable monthly, with annual capital repayments equal to 25% of the Company's annual operating cash flows, if any. Consequently, the timing of repayments cannot be determined.
2. From January 1, 2004 to December 31, 2006, the holder of the preferred shares may elect (i) to convert them into common shares at two times the market price at the date of conversation, or (ii) to require the Company to redeem them for cash, in which case the Company must redeem the shares if it has received sufficient cash to do so, pursuant to a licensing agreement with the holder, and, if not, the Company may convert such shares at the market price at the date of conversion. If no election is made prior to December 31, 2006, the Company may redeem the shares on or prior to January 30, 2007 for cash or convert them into common shares at the market price on the date of conversion. Consequently, the Company cannot determine whether any repayment will be made and, if so, the timing thereof.
3. The amount of \$50,000 represents a minimum annual royalty payable in the next five years under a licensing agreement for Fibrostat[®]. When the Company receives royalty revenues, the annual amount payable will increase, depending upon the amount of such future royalty revenues.
4. The Company is committed to a consulting agreement that has a remaining term of 39 months. The amounts shown above reflect this obligation. Almost all of the Company's purchase obligations are for major contracts undertaken in the normal course of business and relating primarily to ongoing clinical trials for Fibrostat[®] and PCK3145. All such contracts can be terminated by the Company, subject to notice of termination of up to 3 months. In the event of termination by the Company, it will generally be liable for costs incurred up to the effective date of termination, including in certain cases expenses required to be incurred to complete activities associated with termination of the project.

There were no commitments for capital expenditures as at March 31, 2004.

Off-Balance Sheet Arrangements

Except for the operating leases and royalty and purchase obligations disclosed above under "Contractual Obligations", the Company has not entered into any off-balance sheet arrangements and does not expect to enter into any, other than in the normal course of business, in the near future.

Related Party Transactions

Under an employee share purchase loan program implemented in 2000, key employees were permitted to participate in the 2000 Special Warrant Offering through share purchase loans. Loans were limited to a maximum of \$100,000 to any one individual and related, for each loan, to the purchase of 38,168 special warrants at \$2.62 each. These loans are non-interest bearing and are collateralized by the underlying common shares. As at March 31, 2004, two of these loans totaling \$200,000 were outstanding to officers and directors and the underlying shares had a market value of approximately \$80,900. The loans are due on April 11, 2013, can be repaid at any time and must be repaid in full when the market price of the common shares reaches \$2.65 for ten consecutive trading days, or upon termination of the borrowers' employment with the Company, subject to certain conditions.

Proposed Transactions

At the present time, we do not anticipate any significant transactions involving the acquisition or disposition by the Company of assets or businesses.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The reported amounts and note disclosures in the consolidated financial statements are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results, however, may differ from the estimates used in the consolidated financial statements and such differences could be material. Details of the more critical estimates used are as follows:

- The Company incurred research and development expenditures that are eligible for investment tax credits. The investment tax credits, which are recorded as a reduction of research and development expenses, amounted to \$293,000 in the first quarter of 2004 (Quarter ended March 31, 2003 - \$181,000) and are based on management's estimates of amounts that will be recovered. However, these amounts are subject to audit by taxation authorities. Management considers that the amounts recorded have been conservatively estimated.
- Effective January 1, 2003, the Company prospectively adopted the new CICA Section 3063 accounting recommendation on the impairment of long-lived assets. When the carrying value of a long-lived asset is less than its net recoverable value as determined on an undiscounted basis, an impairment loss is recognized. The impairment loss is recognized to the extent that the asset's fair value measured on a discounted expected cash flow basis over its life is below its carrying value. Prior to January 1, 2003, asset impairments were recorded to the extent that the amount of an asset's carrying value exceeded its net recoverable amount on an undiscounted cash flow basis. Based on management's evaluation of the net recoverable value of its long-lived assets, no impairment losses were recognized in the first quarter of 2004, in 2003 or 2002.
- The Company also makes accounting estimates of the fair value of stock options granted to employees, directors and consultants and of warrants issued to purchase common shares of the Company. As at March 31, 2004, a total of 3,945,500 stock options were outstanding, of which 3,050,501 were exercisable at that date. Also, 6,970,897 common shares were reserved

for issuance on the exercise of warrants. The warrants, net of issue costs, were recorded at \$751,292. Effective January 1, 2003, the Company began prospectively recording compensation expense for awards granted to employees and directors, based on their fair value determined using the Black-Scholes option pricing model. Options granted to consultants and warrants issued both continue to be recorded at their fair value at the date of issue, also determined using the Black-Scholes option pricing model, which takes into account the volatility of the Company's shares, the prevailing risk-free interest rate, the expected dividend yield and the expected life of the security.

Changes in Accounting Policies

There have been no changes in accounting policies adopted by the Company during the quarter ended March 31, 2004.

Financial Instruments

The Company does not use currency or other hedging instruments.

Outstanding Share Data

As of April 27, 2004 there are 4,000,000 First Preferred Shares, Series 1 outstanding, unchanged from December 31, 2003. The number of common shares outstanding as of April 27, 2004 is 84,676,399, an increase of 17,340,500 from December 31, 2003, 17,250,000 resulting from the sale of Units on April 7, 2004 and 90,500 from the exercise of stock options. The number of stock options outstanding at April 27, 2004 is 4,153,000, an increase of 514,500 from December 31, 2003. In addition, 17,407,147 warrants are outstanding on April 27, 2004, compared to 6,970,897 at December 31, 2003. The increase resulted from the sale of Units on April 7, 2004.

Form 52-109FT2 – Certification of Interim Filings during Transition Period

I, Hans J. Mäder, Chairman, President & Chief Executive Officer of Procyon Biopharma Inc., certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Procyon Biopharma Inc., for the interim period ending March 31, 2004;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings; and
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.



Date: April 27th, 2004

Chairman, President
& Chief Executive Officer

I, Monique Létourneau, Executive Vice-President, Finance & Chief Financial Officer of Procyon Biopharma Inc., certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Procyon Biopharma Inc., for the interim period ending March 31, 2004;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings; and
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.



Date: April 27th, 2004

Executive Vice-President Finance
& Chief Financial Officer

PROCYON BIOPHARMA INC.
CONSOLIDATED BALANCE SHEETS

As at

	March 31, 2004 (unaudited) \$	December 31, 2003 (audited) \$
ASSETS		
Current assets		
Cash and cash equivalents	631,511	476,673
Short-term investments	5,938,210	9,440,494
Accounts receivable	337,411	213,946
Investment tax credits recoverable	1,218,083	1,047,500
Prepaid expenses	186,407	155,093
	8,311,622	11,333,706
Property, plant and equipment	982,566	1,034,677
Intellectual property	7,135,738	7,305,837
Long-term investments	-	7,001
Deferred financing costs	647,093	663,686
	17,077,019	20,344,907
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	1,127,016	1,582,775
Deferred revenue	-	9,617
	1,127,016	1,592,392
Biolevier loan facility	5,135,757	5,043,223
Convertible debenture	50,000	50,000
Preferred shares (note 3)	4,000,000	4,000,000
	10,312,773	10,685,615
Shareholders' equity (note 3)		
Share capital	47,957,486	47,874,176
Warrants	751,292	751,292
Contributed surplus	2,611,083	2,550,164
Equity component of convertible debenture	675,000	675,000
Deficit	(45,230,615)	(42,191,340)
	6,764,246	9,659,292
	17,077,019	20,344,907

See accompanying notes

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

	Three months ended	
	March 31,	
	2004	2003
	\$	\$
REVENUES		
License revenue	9,617	15,017
Interest income	54,062	76,397
	63,679	91,414
EXPENSES		
Research and development	2,246,633	1,122,460
Research and development tax credits	(293,000)	(181,000)
Net research and development	1,953,633	941,460
General and administrative	802,300	670,752
Amortization of property, plant and equipment	76,530	33,441
Amortization of intellectual property	173,061	104,245
Amortization of deferred financing fees	16,593	-
Interest on Biolevier loan	92,534	-
Other financial charges	1,391	1,036
Foreign exchange gains	(13,088)	(7,200)
	3,102,954	1,743,734
Net loss	(3,039,275)	(1,652,320)
Deficit, beginning of period	(42,191,340)	(31,472,338)
Deficit, end of period	(45,230,615)	(33,124,658)
Basic and diluted loss per share	(0.05)	(0.03)
Weighted average number of common shares outstanding	67,300,788	52,335,372

See accompanying notes

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

	Three months ended	
	March 31	
	2004	2003
	\$	\$
OPERATING ACTIVITIES		
Net loss	(3,039,275)	(1,652,320)
Items not affecting cash		
Amortization of property, plant and equipment	76,530	33,441
Amortization of intellectual property	173,061	104,245
Amortization of deferred financing fees	16,593	-
Write-down of investments	7,001	-
Loan interest capitalized	92,534	-
Non-cash license revenues	(4,417)	(4,417)
Services paid by issuance of stock options (note 3)	60,919	-
	(2,617,054)	(1,519,051)
Net change in non-cash balances relating to operations	(783,703)	(960,150)
Cash flows related to operating activities	(3,400,757)	(2,479,201)
INVESTING ACTIVITIES		
Acquisition of intellectual property	(2,962)	(12,575)
Acquisition of property, plant and equipment	(24,419)	(85,142)
Purchase of short-term investments	-	(992,480)
Maturities of short-term investments	3,502,284	8,908,520
Cash flows related to investing activities	3,474,903	7,818,323
FINANCING ACTIVITIES		
Issue of common shares	83,310	-
Repayment of long-term debt assumed in an acquisition	(2,618)	-
Debt financing costs	-	(13,369)
Cash flows related to financing activities	80,692	(13,369)
Net increase in cash and cash equivalents	154,838	5,325,753
Cash and cash equivalents, beginning of period	476,673	379,008
Cash and cash equivalents, end of period	631,511	5,704,761
Supplemental cash flow information		
Cash paid during the period for interest	2,781	-

See accompanying notes

Procyon Biopharma Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004

(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. 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, 2003.

2. Long-term 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. 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, with 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. This warrant expired without value on March 19, 2004 and the remaining carrying value of \$7,000 was written off at that time.

3. Capital stock

Common shares

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

	Number of shares	Stated capital \$
Balance as at December 31, 2003	67,335,899	47,874,176
Issued for cash on exercise of stock options	90,500	83,310
Balance as at March 31, 2004	67,426,399	47,957,486

Stock option plan

As at March 31, 2004, there were 3,945,500 stock options outstanding, compared to 3,638,500 at December 31, 2003.

	Three months ended March 31,			
	2004		2003	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Options outstanding, January 1	3,638,500	1.25	3,765,300	1.29
Granted	457,500	1.02	107,500	0.37
Forfeited	(60,000)	1.89	(14,900)	1.10
Exercised	(90,500)	0.92	-	-
Options outstanding, March 31	3,945,500	1.22	3,857,900	1.26
Exercisable	3,050,501	1.35	2,767,901	1.48

Procyon Biopharma Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004

(unaudited)

All options granted were with exercise prices equal to the market price of the Company's shares at the date of grant. Compensation expense of \$34,263 has been recognized in the quarter for stock options granted to employees and directors and an additional amount of \$26,656 has been expensed for options granted to consultants. The expense was based on the fair value of the options at the date of grant determined using the Black-Scholes option pricing model with a volatility factor of from 70% to 75%, a risk-free interest rate of approximately 3%, a dividend yield of nil and an expected life of three years. Effective January 1, 2003, the Company began prospectively recording compensation expense for awards granted to employees. In 2002, the fair value of options granted to employees was not expensed. Had compensation cost for 2002 been determined based on the fair value of options as of the date of grant using the Black-Scholes option pricing model, with a volatility factor of 63%, a risk-free interest rate of 4%, a dividend yield of nil and a weighted-average expected life of the options of three years, and had the fair value been amortized over the vesting period of the options, the Company's net loss and loss per common share would have been as follows:

		Three months ended March 31, 2004	Three months ended March 31, 2003
Net loss	As reported	\$(3,039,275)	\$(1,652,320)
	Pro forma	(3,054,293)	(1,667,338)
Basic and diluted earnings per share	As reported	\$(0.05)	\$(0.03)
	Pro forma	(0.05)	(0.03)

Contributed surplus

	\$
Balance as at December 31, 2003	2,550,164
Options issued to consultants	26,656
Options granted to employees and directors	34,263
Balance as at March 31, 2004	<u>2,611,083</u>

An amount of \$26,656, representing the fair value of options to purchase common shares granted to consultants in the first quarter of 2004, was expensed in the quarter with a credit to Contributed Surplus. Also, the fair value of options granted to employees since January 1, 2003 is being recorded as an expense over their vesting period, resulting in an amount of \$34,263 being expensed in the first quarter of 2004, with a corresponding credit to Contributed Surplus.

4. Subsequent events

On April 7, 2004, the Company closed the sale of 17,250,000 Units, including the over-allotment option granted to the underwriters, at a price of \$1.00 per Unit, for total gross proceeds of \$17,250,000. Each Unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole purchase warrant entitles the holder to purchase one additional common share of the Company at a price of \$1.25 at any time during the 24 months following the closing. The total cash expenses of the issue are estimated at \$1,560,000, including \$1,207,500 of underwriting fees. As additional compensation, the Company granted 1,207,500 Broker Warrants with an exercise price of \$1.00 per Unit.

5. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.