

Message to shareholders

August 20, 2003

We are pleased to report on the corporate and scientific developments of the Company during the second quarter ended June 30, 2003. As we moved forward with all of our development programs, the most important milestone for the second quarter of 2003 was the successful completion of the acquisition of Pharmacor Inc. along with a concurrent financing of \$3.25 million. This acquisition positions Procyon as a consolidator in the Canadian biotechnology industry.

Procyon continues to focus on its core competency which is to bring drugs from the laboratory to the clinic in the fields of oncology and infectious diseases. With four of Procyon's five technologies currently undergoing clinical trials/evaluations, Pharmacor adds a strong pipeline of anti-HIV preclinical products and potential research compounds. With Pharmacor on board, we now expect to file one IND per year for the next three years.

The integration of Pharmacor is almost completed and we have already achieved multiple synergies from this acquisition, both on the financial and scientific front. Not only does Procyon's clinical development team complement Pharmacor's basic research, but the combination of the two companies allows us to accelerate our development programs in a cost-effective manner.

ONCOLOGY UPDATE – Accumulating peer-recognition

Procyon's scientists and collaborators from McGill University published in the May 1st issue of *Cancer Research* results showing the efficacy of Prostate Secretory Protein of 94 amino acids (PSP⁹⁴) in reducing growth of rat prostate cancer cells via apoptosis in the rapidly growing MatLyLu rat prostate cancer model. In addition, the publication reported on the effect of PSP⁹⁴ in reducing malignancy-associated hypercalcaemia, suggesting the potential role of PSP⁹⁴ in the treatment of metastatic prostate cancer. Advanced late-stage prostate cancer usually results in spread of metastatic cancer to the bone, subsequently leading to severe bone pain as well as spread to the lungs and brain resulting in death. With the reported effects on reduction of malignancy-associated hypercalcaemia, we can foresee a potentially larger role for our non-toxic therapeutic candidate PCK3145 in the treatment of both the prostate cancer cell growth and the potential inhibition of metastatic spread.

The Phase IIa human clinical trial in the U.K. for the treatment of hormone refractory prostate cancer with Procyon's peptide drug, PCK3145, is progressing very well. By the end of the quarter, eight patients had completed a least one cycle of treatment and one patient had completed his 5th cycle of treatment (approximately six months). Complete recruitment of all patients is expected by the fourth quarter. Interim results are expected later this year.

Furthermore, one of our research collaborators, Dr. J. W. Xuan, Director of the Urological Research Laboratories at the London Health Sciences Centre, Ontario, Canada, was awarded a three-year grant from the Canadian Institutes of Health Research (CIHR) to pursue his work on Procyon's Prostate Secretory Protein (PSP⁹⁴) technology. In addition, Dr. Xuan was also awarded the CIHR/Rx&D fellowship for a period of five years.

These examples of recognition from our peers show the potential of our PSP research program and reiterate the credibility of Procyon's collaborators.

VIROLOGY UPDATE – PL-100 is progressing as planned

The development of Procyon's protease inhibitor, PL-100, is also moving forward as planned. As anticipated, the up-scaling of the manufacturing processes for PL-100 has been successful. Genotoxicity studies as required by regulations are currently underway; whole animal safety studies are expected to be conducted shortly thereafter. We expect to bring the compound into the clinic by September 2004.

In June, researchers from our new Virology Division were invited to present a scientific poster reporting on our novel anti-HIV protease inhibitor at the XIIth International HIV Drug Resistance Workshop in Los Cabos, Mexico. The poster entitled "Antiviral Activity of P-1946, a Novel Anti-HIV Protease Inhibitor" described the antiviral activity of P-1946, a lead compound from which our protease inhibitor drug candidate, PL-100, was derived.

Protease inhibitors have significantly improved the treatment of HIV-infected individuals and provide new hopes for clinical management of HIV/AIDS. However, HIV drug resistance is becoming a major barrier to current therapy, resulting in over 75% of patients on anti-HIV therapy experiencing treatment failure. Approximately 10% of all newly-diagnosed patients are currently infected with a form of the HIV that is resistant to at least one anti-HIV drug therapy. Therefore, new protease inhibitors with distinct resistance profiles are clearly needed to help resolve this issue. Procyon's robust antiretroviral program will hopefully provide desperately needed drug options for patients who are experiencing treatment failure due to viral resistance.

DERMATOLOGY UPDATE – Fibrostat® is back on track

During the second quarter of 2003, we initiated the North American clinical Phase IIb trial for Fibrostat®, after receiving clearance from the U.S. Food and Drug Administration (FDA) and subsequently from Health Canada's Therapeutic Product Directorate (TPD). Enrolment of the 200 patients for the placebo-controlled, double-blind, randomized study is about to begin in seven centers across Canada and the United States that possess extensive expertise in wound healing. The study design includes a four-week run-in period followed by an eight-week treatment period. This design is intended to minimize the placebo effect that is often observed in vehicle-cream controlled trials due to occlusion and hydration. We expect the study results to be available by July 2004. The right to commercialize this product in North America has been licensed to Biovail Corporation and discussions with a number of potential partners for Europe and Japan are progressing well.

CORPORATE UPDATE – A growing team

I am very pleased to announce the appointment of Dr. Brigitte Lebreton, the former President and CEO of Pharmacor, as Executive Vice-President, Virology Division of Procyon. Dr. Lebreton will continue to diligently guide the new Virology group, the addition of which has increased our team to 40 employees.

On June 4, 2003, we held our Annual General Meeting and are pleased to announce the re-election of the Board of Directors *en bloc*. Immediately following the meeting, Procyon's Board of Directors appointed a new member to the Board in the person of Mr. Jose Larrea, Vice-President, Health Sector, Investissement Desjardins.

I would like to conclude by saying that we continue to work on meeting our main objective for 2003 which is to build critical mass. We have already made progress in that direction with the acquisition of Pharmacor and are actively seeking other M&A opportunities with a clear focus on drug development from preclinical stage to human proof-of-concept in the fields of oncology and infectious diseases.

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.

On April 17, 2003 the Company acquired 100% of the outstanding common shares of Pharmacor Inc. for a purchase price, including acquisition expenses, of \$3,036,255. In a concurrent transaction, a total of \$3,212,289 of financing, net of issue expenses, was obtained from the sale by private placement of 7,844,445 units at \$0.45 each. Each unit consists of one common share of Procyon and 0.4153845 common share purchase warrant. The results of operations of Pharmacor have been consolidated in the accounts of the Company since the date of acquisition.

RESULTS OF OPERATIONS

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

The Company incurred a net loss of \$3,102,057 or \$0.05 per common share for the second quarter of 2003, compared with a net loss of \$1,621,350 or \$0.03 per common share for the same quarter last year.

Revenues for the current quarter were \$87,281, compared with \$90,080 in the corresponding quarter last year. The lower revenues reflected a reduction in license revenue in the current quarter that was partially offset by an increase in interest income due to the improvement in interest rates over the second quarter of 2002.

Research and development expenses amounted to \$2,382,124 in the second quarter of 2003, compared with \$1,039,238 in the same quarter last year, an increase of 129%. A significantly higher level of spending in the current quarter for the clinical trials underway in the U.K. for PCK3145 and for the validation of the PSP⁹⁴ serum-based immunoassay were the principal causes of the increase. In addition, following the acquisition of Pharmacor Inc. on April 17, 2003, \$268,000 was spent in the area of HIV/AIDS and spending on Fibrostat[®] was also higher than in the second quarter of 2002. Tax credits increased to \$345,307 in the current quarter from \$190,000 in the same quarter last year, reflecting primarily the higher expenses. Research and development expenses represented 67% of total expenses before tax credits in the current quarter, compared with 55% in the corresponding period last year.

General and administrative expenses amounted to \$864,289 in the second quarter of 2003, an increase of \$123,974 or 17% over the same period last year. The higher expenses primarily reflected increased spending in the current period for employee compensation together with consulting and professional fees.

Amortization expense increased to \$226,897 from \$120,478 in the second 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.

Six Months ended June 30, 2003 compared with the Six Months ended June 30, 2002

A net loss of \$4,754,377 or \$0.08 per common share was incurred in the six months ended June 30, 2003, compared with a net loss of \$3,234,185 or \$0.07 per common share for the first half of 2002.

Revenues earned for the first half of 2003 amounted to \$178,695, compared with \$161,417 in the corresponding period last year. The increase in revenues resulted from higher interest income due to a higher level of cash and short-term investments and an improvement in interest rates in the current period, partially offset by a reduction in license revenue.

Research and development expenses amounted to \$3,504,584 in the first six months of 2003, compared with \$2,274,523 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 PSP⁹⁴ serum-based immunoassay, together with spending since the April 17, 2003 acquisition date of Pharmacor Inc. on research into HIV/AIDS. Tax credits increased to \$526,307 in the first half of 2003 from \$369,000 in the same period of 2002, reflecting the higher level of research and development spending. Research and development expenses represented 64% of total expenses before tax credits in the current period, compared with 60% in the corresponding period last year.

General and administrative expenses for the six months ended June 30, 2003 were \$1,527,841 compared with \$1,247,275 for the first half of 2002. The higher level of expenses was primarily for employee compensation and professional and consulting fees, including the impact of the Pharmacor acquisition of approximately \$46,000.

Amortization expense in the first half of 2003 amounted to \$364,583, compared with \$241,132 in the same period last year. The increase resulted primarily from the amortization 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.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and short-term investments at June 30, 2003 totaled \$9,386,937 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 \$3,359,141 in cash and cash equivalents and short-term investments in the first half of 2003 resulted primarily from a total of \$6,202,253 having been utilized to finance operating activities for the six months period, including an increase of \$1,938,976 in non-cash working capital. This was partially offset by an equity financing, arranged concurrent with the Pharmacor acquisition, which raised a total amount of \$3,212,289, net of expenses. In addition, \$159,832 of cash was obtained with the acquisition, while acquisition expenses amounted to \$236,255. \$124,852 was spent in the current period for the purchase of property, plant and equipment, primarily to equip the Company's expanded laboratory facilities, and \$64,726 for intellectual property. Debt financing costs of \$77,765 were incurred in the current six 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 \$25,411 in the first half of 2003. A bank loan of \$624,280 in Pharmacor, secured by its investment tax credits recoverable, was repaid in full in July 2003 on receipt of the tax credits.

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 early-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	June 30, 2003 (unaudited) \$	December 31, 2002 (audited) \$
ASSETS		
Current assets		
Cash and cash equivalents	4,429,517	379,008
Short-term investments	4,957,420	12,367,070
Accounts receivable	383,758	320,001
Investment tax credits recoverable	2,439,971	895,000
Prepaid expenses	147,748	52,806
	12,358,414	14,013,885
Property, plant and equipment	1,158,285	464,059
Intellectual property	7,542,982	4,721,827
Investments (note 3)	7,001	53,001
Deferred financing fees	253,938	176,174
	21,320,620	19,428,946
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	624,280	-
Accounts payable and accrued liabilities	1,340,952	1,513,578
Deferred revenue	18,450	37,883
Current portion of long-term debt	51,912	-
	2,035,594	1,551,461
Long-term debt	61,669	-
Convertible debenture	50,000	50,000
Preferred shares	4,000,000	4,000,000
	6,147,263	5,601,461
Shareholders' equity (note 4)		
Share capital	47,834,013	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	(36,226,715)	(31,472,338)
	15,173,357	13,827,485
	21,320,620	19,428,946

See accompanying notes

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

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	\$	\$	\$	\$
REVENUES				
License revenue	4,416	20,016	19,433	40,033
Interest and other income	82,865	70,064	159,262	121,384
	87,281	90,080	178,695	161,417
EXPENSES				
Research and development	2,382,124	1,039,238	3,504,584	2,274,523
Research and development tax credit	(345,307)	(190,000)	(526,307)	(369,000)
General and administrative	864,289	740,315	1,527,841	1,247,275
Amortization of property, plant and equipment	66,967	19,947	100,408	39,852
Amortization of intellectual property	159,930	100,531	264,175	201,280
Write-down of investment	46,000	-	46,000	-
Financial charges	15,335	1,399	16,371	1,672
	3,189,338	1,711,430	4,933,072	3,395,602
Net loss	(3,102,057)	(1,621,350)	(4,754,377)	(3,234,185)
Adjustment to terms of outstanding warrants	-	(350,000)	-	(350,000)
Deficit, beginning of period	(33,124,658)	(25,857,789)	(31,472,338)	(24,244,954)
Deficit, end of period	(36,226,715)	(27,829,139)	(36,226,715)	(27,829,139)
Basic and diluted loss per share	(0.05)	(0.03)	(0.08)	(0.07)
Weighted average number of common shares outstanding	64,569,805	49,283,344	58,486,385	47,258,008

See accompanying notes

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

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(3,102,057)	(1,621,350)	(4,754,377)	(3,234,185)
Add non-cash items				
Amortization of property, plant and equipment	66,967	19,947	100,408	39,852
Amortization of intellectual property	159,930	100,531	264,175	201,280
Write-down of investment	46,000	-	46,000	-
Services paid by issuance of stock options (note 4)	80,517	90,000	80,517	90,000
	(2,748,643)	(1,410,872)	(4,263,277)	(2,903,053)
Net change in non-cash working capital balances related to operations	(974,409)	(282,947)	(1,938,976)	(1,150,721)
Cash flows related to operating activities	(3,723,052)	(1,693,819)	(6,202,253)	(4,053,774)
INVESTING ACTIVITIES				
Acquisition of intellectual property	(52,151)	(50,119)	(64,726)	(53,004)
Acquisition of property, plant and equipment	(39,710)	(21,387)	(124,852)	(23,917)
Cash obtained on acquisition of business	159,832	-	159,832	-
Acquisition expenses	(236,255)	-	(236,255)	-
Purchase of short-term investments	(4,957,420)	(5,462,815)	(5,949,900)	(5,462,815)
Maturities of short-term investments	4,451,030	2,082,480	13,359,550	5,025,218
Cash flows related to investing activities	(674,674)	(3,451,841)	7,143,649	(514,518)
FINANCING ACTIVITIES				
Issuance of units	3,530,000	10,001,520	3,530,000	10,001,520
Unit issue expenses	(317,711)	(936,097)	(317,711)	(936,097)
Issuance of common shares	-	63,610	-	510,860
Debt financing costs	(64,396)	-	(77,765)	-
Repayment of long-term debt	(25,411)	-	(25,411)	-
Issuance of preferred shares	-	-	-	4,000,000
Cash flows related to financing activities	3,122,482	9,129,033	3,109,113	13,576,283
Net increase (decrease) in cash and cash equivalents	(1,275,244)	3,983,373	4,050,509	9,007,991
Cash and cash equivalents, beginning of period	5,704,761	5,565,552	379,008	540,934
Cash and cash equivalents, end of period	4,429,517	9,548,925	4,429,517	9,548,925
Supplemental cash flow information				
Cash paid during the period for interest	12,659	-	12,659	-

See accompanying notes

Procyon Biopharma Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 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 is 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)
Balance as at June 30, 2003	67,256,153	47,834,013

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 June 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

June 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 June 30, 2003, 3,903,250 stock options were outstanding compared to 3,765,300 at December 31, 2002. During the six months ended June 30, 2003, 441,500 options with a fair value of \$77,996 were granted, no 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 61% 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 June 30, 2003	Six months ended June 30, 2003
Net loss	As reported	\$(3,102,057)	\$(4,754,377)
	Pro forma	(3,120,970)	(4,789,032)
Basic and diluted earnings per share	As reported	\$(0.05)	\$(0.08)
	Pro forma	(0.05)	(0.08)

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	1,503,759	-
Expired warrants	(3,894,780)	(233,687)
Balance as at June 30, 2003	10,661,113	1,076,867

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

June 30, 2003

(unaudited)

Other paid-in capital

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

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
	3,043,698

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.