



Message to Shareholders,

August 20, 2001

We are pleased to submit this report, for our second quarter, ended June 30, 2001. The Company continues to make progress toward meeting its corporate objectives and enhancing shareholder value. Key activities for the quarter are described below.

Changes to our Management Team

During the quarter, we were very pleased to welcome to the Management team Ms. Monique Létourneau, CFA, as Executive Vice-President, Finance and Chief Financial Officer. Ms. Létourneau joined Procyon in June after having worked for several years with increasing responsibilities at Power Corporation of Canada, the most recent being Treasurer for the corporation since 1997. She brings to Procyon a wealth of experience as well as contacts in the field of institutional financing.

Mr. Edward Yeats has taken on new responsibilities as Vice-President, Chief Accounting Officer and Controller of the Company, and we are very appreciative of his ongoing valuable contribution to Procyon.

Additional Financing Obtained

On June 22, 2001, the Company closed a private placement totaling \$1 million with NATCAN and SIPAR for \$500,000 each. The common shares of the Company will now qualify for the Quebec Stock Savings Plan.

Research and Development Advancing Well

Core Technologies

Procyon continues to make progress in the development of its innovative platform technologies in cancer.

For the ANA technology platform, we have received the cell line, which produces the antibody c-2C5, the chimeric version of our monoclonal ANA antibody 2C5, from our development partner, Biovation Limited (part of the Merck KGaA group). We have also entered into an agreement for the manufacture of GMP grade chimeric monoclonal antibody, c-2C5, with a well-known contract manufacturer and have commenced work on the production of the de-immunized version of this monoclonal antibody as a second-generation drug candidate.

The PSP⁹⁴ program is also progressing well in the development of a diagnostic/prognostic test and we expect to have a prototype for clinical testing later this year. Procyon has selected the synthetic peptide PCK3145 as the therapeutic drug candidate it will advance to human clinical trials for the treatment of

late stage prostate cancer. This synthetic peptide has similar anti-cancer activity as both the native and the recombinant PSP⁹⁴ proteins, but is easier to manufacture and would be evaluated as a drug rather than as a biological by the regulatory agencies. This categorization as a drug would involve a much more defined set of criteria for approval than the regulatory process for a biological. All pre-clinical studies, including a primate toxicology study, are close to completion. Preparations for an IND application for the PSP⁹⁴ therapeutic approach to treating prostate cancer using the PCK3145 peptide are currently underway with the objective of filing the IND before the end of the year.

Late-Stage Products

Phase II clinical trials are ongoing for the scar management product, FIBROSTAT[®]. Clinical trial recruitment is underway in nine centers across Canada and so far, over 70 patients have been recruited. The Company is on target to file its IND application for clinical Phase III studies for FIBROSTAT[®] later this year. We are also actively involved in pursuing discussions with potential licensing partners for FIBROSTAT[®] in other jurisdictions, including the U.S. and Europe.

Procyon's colorectal cancer screening product COLOPATH[®] was licensed to International Medical Innovations (IMI) in the last quarter. COLOPATH[®] is currently being developed by IMI in conjunction with their ColorectAlert[™] cancer screen test, for clinical trials in the U.S.

FINANCIAL RESULTS

The Company's net loss for the quarter ended June 30, 2001 was \$2,536,905 compared to a loss of \$1,176,267 for the quarter ended June 30, 2000. The year-to-date loss for the six months ended June 30, 2001 was \$4,505,122 compared to a loss of \$2,500,582 for the previous year.

Revenues for the quarter ended June 30, 2001 decreased by \$59,016 to \$157,759 from \$216,775 for the quarter ended June 30, 2000. The decrease in revenues is directly related to the reduction in the funds held for reinvestment. Year-to-date revenues increased by \$93,166 from \$241,696 for the six months ended June 30, 2000 to \$334,862 in 2001.

Research and development expenses, before research and development tax credits, increased by \$1,229,100 to \$1,950,638 for the quarter ended June 30, 2001 from \$721,538 for the quarter ended June 30, 2000. For the six months ended June 30, 2001 research and development expenses increased by \$2,202,084 to \$3,360,077 from \$1,157,993 for the previous six months. The increases for both periods is a result of the initiation and continuation of clinical trials for FIBROSTAT[®], increased research and pre-clinical testing in both PSP⁹⁴ and ANA and the increase in the number of employees in the research related area.

For the six months ended June 30, 2001, the Company accrued \$316,000 in research tax credits on its current expenditures, compared to \$222,000 for the six months ended June 30, 2000. The 42% increase reflects a higher expenditure on our research and development projects in Canada.

General and administrative expenses for the quarter ended June 30, 2001 increased by \$40,764 to \$797,971 compared to \$757,207 for the quarter ended June 30, 2000. Year to-date general and administrative expenses decreased by \$31,723 to \$1,590,155 for the six months ended June 30, 2001 compared to \$1,621,878 for the same period in 2000. The increase during the quarter ended June 30, 2001 is a result of management estimating the fair value of stock options issued to a consultant in consideration for services rendered to be approximately \$77,000. The year to-date decrease is attributed to reduced

travel as management was involved in many financial presentations and the preparation of its prospectus in 2000, which resulted in a \$20 million private placement.

As at December 31, 2000, management of the Company changed its existing policy and is now amortizing all patent costs and license fees on a straight-line basis over 15 years from the date of acquisition. As a result the financial statements for the quarter ended June 30, 2000 have been restated to reflect the accounting change. For the six months ended June 30, 2001 the amortization expense increased by \$68,368 to \$204,816 compared to \$136,448 for the six months ended June 30, 2000. This increased expense is a result of our purchase of the license for COLOPATH[®] in late 2000.

Financial Position

Total assets at June 30, 2001 were \$17,010,415, a decrease from December 31, 2000 of \$3,342,848. The decrease in assets is largely attributable to the operating loss for the six months period partially offset by the \$1,000,000 private placement completed in June 2001.

Short-term liabilities decreased by \$380,571 to \$674,646 as at June 30, 2001 compared to \$1,055,217 as at December 31, 2000. This decrease can be attributed to a decrease in accounts payable partially offset by deferred revenue generated by the out-licensing of COLOPATH[®]. The deferred revenue will be recognized as income over the next two years.

Liquidity and Capital Resources

The Company's liquidity consists of cash, cash equivalents and short-term investments. As at June 30, 2001, our liquid assets totaled \$10,928,034 compared to \$14,163,170 as at December 31, 2000. This decrease is attributable to the operating loss for the period.

Management believes that it has sufficient liquidity to support its activities for at least the next fifteen months. We expect operating expenses to continue to increase as we further advance our research and development activities. Future revenue which will be derived from research contracts and the commercialization of the Company's products may not be realized on a timely basis or be sufficient to support operating cash. We are therefore anticipating another round of financing within the next twelve months to fund our future research programs and to facilitate the acquisition of new technologies to add to our existing portfolio.

Safe Harbour Statement

The matters discussed in this management discussion and analysis of financial condition and results of operations are, by nature, forward-looking. For a number of reasons, actual results could differ materially.

Signed : Hans J. Mäder
Chairman, President and CEO

PROCYON BIOPHARMA INC.
CONSOLIDATED BALANCE SHEETS

As at

	June 30, 2001 (unaudited) \$	December 31, 2000 (audited) \$	June 30, 2000 (audited) \$
			[restated – note 2]
ASSETS			
Current assets			
Cash and cash equivalents	10,928,034	14,163,170	3,247,231
Accounts receivable	96,255	221,363	331,169
Investment tax credits recoverable	584,689	667,000	222,000
Prepaid expenses	94,481	25,801	74,912
	11,703,459	15,077,334	3,875,312
Fixed assets	528,045	497,788	423,792
Intellectual property	4,778,911	4,778,140	2,497,818
Investments	-	1	1
	17,010,415	20,353,263	6,796,923
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	565,246	1,055,217	719,257
Deferred revenue [note 3]	109,400	-	-
	674,646	1,055,217	719,257
Convertible debenture	50,000	50,000	50,000
Future income taxes	414,000	414,000	539,000
	1,138,646	1,519,217	1,308,257
Shareholders' equity [note 4]			
Share capital	33,605,245	32,458,150	13,990,759
Other paid-in capital	862,000	785,000	120,000
Warrants	233,687	233,687	3,096,832
Equity components of convertible debenture	568,750	250,000	-
Deficit	(19,397,913)	(14,892,791)	(11,718,925)
	15,871,769	18,834,046	5,488,666
	17,010,415	20,353,263	6,796,923

See accompanying notes

PROCYON BIOPHARMA INC
CONSOLIDATED STATEMENTS OF
LOSS AND DEFICIT
(unaudited)

	Quarter Ended June 30,		Six months Ended June 30,	
	2001	2000	2001	2000
	\$	\$	\$	\$
		[restated - note 2]		[restated - note 2]
REVENUES				
Sales	-	-	-	3,081
Interest and other income	157,759	216,775	334,862	238,615
	157,759	216,775	334,862	241,696
EXPENSES				
Research and development	1,950,638	721,538	3,360,077	1,157,993
Research and development credit	(157,000)	(158,542)	(316,000)	(222,000)
General and administrative	797,971	757,207	1,590,155	1,621,878
Write-down of investment	-	-	-	42,494
Depreciation and amortization	102,514	71,513	204,816	136,448
Interest and bank charges	541	1,326	936	5,465
	2,694,664	1,393,042	4,839,984	2,742,278
Loss for the period	(2,536,905)	(1,176,267)	(4,505,122)	(2,500,582)
Adjustment for income taxes	-	36,000	-	(539,000)
Deficit, beginning of period	(16,861,008)	(10,578,658)	(14,892,791)	(8,679,343)
Deficit, end of period	(19,397,913)	(11,718,925)	(19,397,913)	(11,718,925)
Loss per share	(0.06)	(0.03)	(0.10)	(0.07)
Weighted average number of common shares outstanding	43,912,088	35,140,359	43,920,555	35,435,484

See accompanying notes

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	\$	\$	\$	\$
		[restated - note - 2]		[restated - note - 2]
OPERATING ACTIVITIES				
Net loss for the period	(2,536,905)	(1,176,267)	(4,505,122)	(2,500,582)
Add non-cash items				
Amortization of capital assets	102,514	71,513	204,816	136,448
Write-down of investment	-	-	-	42,494
Increase in other paid-in capital	77,000	-	77,000	120,000
	(2,357,391)	(1,104,754)	(4,223,306)	(2,201,640)
Net change in non-cash working capital balances related to operations	(92,689)	(57,793)	(241,832)	(338,654)
Cash flows related to operating activities	(2,450,080)	(1,162,547)	(4,465,138)	(2,540,294)
INVESTMENT ACTIVITIES				
Intellectual property	(84,154)	(36,867)	(164,976)	(47,328)
Acquisition of capital assets	(41,896)	(65,222)	(70,868)	(96,710)
Disposal of capital assets	-	-	-	18,757
Cash flows related to investment activities	(126,050)	(102,089)	(235,844)	(125,281)
FINANCING ACTIVITIES				
Issue of common shares	1,135,572	-	1,168,288	981,931
Share issue expenses	(21,192)	-	(21,192)	(115,026)
Issue of special warrants		4,602,162		4,602,162
Special warrants issue costs		(1,505,330)		(1,505,330)
Repayment of long-term debt	-	-	-	(135,442)
Issuance of convertible debenture	256,250	-	318,750	50,000
Cash flows related financing activities	1,370,630	3,096,832	1,465,846	3,878,295
Net (decrease) in cash and cash equivalents	(1,205,500)	1,832,196	(3,235,136)	1,212,720
Cash position, beginning of period	12,133,534	1,415,035	14,163,170	2,034,511
Cash and cash equivalents, end of period	10,928,034	3,247,231	10,928,034	3,247,231
Supplemental cash flow information				
Cash paid during the year for interest	-	-	-	2,614

See accompanying notes

Procyon BioPharma Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

(unaudited)

1. Basis of presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. 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 period ended December 31, 2000.

2. Change in accounting policy

In December 2000, the Company changed its accounting policy for the amortization of intellectual property to straight-line amortization over an estimated useful life of 15 years from the date of acquisition. Previously amortization was recorded over an estimated useful life of 10 years from the date of commercialization.

This change has been applied retroactively with a charge to the deficit on December 31, 2000 of \$666,000. The impact of this change is to reduce net income for the quarter ended June 30, 2001 by \$82,102 (quarter ended June 30, 2000 - \$64,934) and net income for the six months ended June 30, 2001 by \$164,205 (six months ended June 30, 2000 - \$114,702).

3. Revenue recognition

Deferred revenue from licensing or royalty fees is recognized as income on a straight-line basis in accordance with the contractual agreements with third parties.

4. Share Capital

Authorized and issued

The authorized capital is an unlimited number of common shares.

Common shares

As at June 30, 2001, 44,929,430 common shares valued at \$33,605,245 were issued and outstanding (43,853,685 valued at \$32,458,150 as at December 31, 2000). On June 22, the Company completed a private placement of 980,394 common shares for a cash consideration of \$1,000,002 less expenses of \$21,193. Also during the quarter, 42,722 common shares were issued for cash on exercise of stock options.

Stock Option Plan

As at June 30, 2001, 3,987,098 stock options were outstanding compared to 3,858,023 as at December 31, 2000. During the six months period, 423,750 options were granted, 95,351 options were exercised and 199,324 options were forfeited.

Warrants

As at June 30, 2001 there were 8,758,256 common shares reserved for issuance upon exercise of warrants compared to 8,536,726 as at December 31, 2000. As part of the private placement completed on June 22, the two investors who participated in the private placement have the right to acquire a maximum of 221,530 common shares if within 90 days of closing of the private placement the Company completes a second private placement at a price lower than \$1.02 per common share.

5. Segmented Information

Information by geographic segment is as follows:

	Three-month Period ended June 30, 2001	Three-month Period ended June 30, 2000
	\$	\$
Revenue		
Canada	-	-
United States	-	-
	As at June 30, 2001	As at December 31, 2000
Intellectual property and fixed assets		
Canada	3,273,890	3,298,143
United States	2,033,066	1,977,785
	5,306,956	5,275,928