



Dear friends and shareholders:

May 11, 2005

We are pleased to submit this report on the results for the first quarter ended March 31, 2005. This was a significant quarter for Procyon, as we signed a licensing deal for our PSP94 test kits while achieving significant clinical milestones with our two main drug candidates: PCK3145, our therapeutic peptide for advanced metastatic prostate cancer and PPL-100, our protease inhibitor for drug-resistant HIV/AIDS.

ONCOLOGY UPDATE

During the first quarter of 2005, we had the opportunity to present the Company's most recent clinical and preclinical developments with PCK3145, our treatment for advanced metastatic prostate cancer as well as our PSP94 immunoassays for the diagnosis and prognosis of prostate cancer, at the 2005 American Society of Clinical Oncology (ASCO) Prostate Cancer Symposium in Orlando, Florida. Moreover, our work was accepted for eight additional presentations, including oral presentations at three other major healthcare conferences, namely, the American Urology Association (AUA) Annual Meeting, the 96th Annual Meeting American of the Association for Cancer Research (AACR) and the 2005 American Society of Clinical Oncology (ASCO) Annual Meeting. We thus initiated an awareness campaign for our PSP94 test kits for prostate cancer which were recently out-licensed to Medicorp Inc.

Licensing deal with Medicorp for our PSP94 test kits

In March, we entered into a licensing and distribution agreement with Medicorp granting the latter the exclusive worldwide rights to develop, manufacture and commercialize PSP94-based test kits for research purposes, as well as the rights to sub-license for clinical diagnostic applications. In light of research to date, the relative ratios of free PSP94, bound PSP94 and PSP94 binding protein present in the blood are believed to have utility in prostate cancer prognosis, diagnosis and monitoring.

Under the terms of the agreement, Procyon and Medicorp will share the revenues generated from the sales of these test kits. Additionally, there will also be a sharing of revenues from upfront, milestone and/or royalty payments from sub-licenses in clinical diagnostic applications. Medicorp will cover all future costs associated with the further manufacturing and commercialization of these test kits. Medicorp expects to begin to market the test kits for research purposes through its own sales force in Canada and through a distributor in the United States during the second quarter of this year. It also plans to start marketing the kits via distributors in Europe and Japan during the fourth quarter of 2005.

Major milestone achieved with the elucidation of PCK3145's receptor and mode-of-action

Immediately following the end of the quarter, the Company announced that it had achieved one of the most important scientific milestones in the development of PCK3145. Our collaborators and scientists have revealed that PCK3145 binds to the cell surface laminin receptor and triggers a signaling cascade of events resulting in down-regulation of MMP-9 (matrix metalloproteinase 9) expression, an enzyme involved in breakdown of extracellular matrix which allows tumor spread. These new findings establish the role of PCK3145 as an anti-angiogenic agent and further corroborate its hit-and-run mode-of-action, thus supporting a once-weekly administration in the upcoming Phase IIb clinical trial.

This recent revelation of a PCK3145 receptor on the cancer cell surface is an exciting development and establishes PCK3145 as a cell signaling agent that inhibits tumor angiogenesis, invasion and metastasis - three events that contribute to cancer-related mortality. In addition to prostate cancer, the results also raise distinct possibilities for the application of PCK3145 for the treatment of other cancers with similar metastatic processes. We hope to be able to provide more details on that front in the near future.

The pilot dose-finding trial is currently underway at the Memorial Sloan-Kettering Cancer Center in New York. The primary objective of this trial is to confirm an optimal dosing frequency for PCK3145 which can reduce and normalize MMP-9 levels in asymptomatic patients with castrate metastatic prostate cancer and it should be completed during the third quarter of 2005. The objective of the North American Phase IIb trial will be to assess the efficacy of PCK3145 and its effects on tumor invasion and metastasis.

VIROLOGY UPDATE

PPL-100 pro-drug presents enhanced resistance and pharmacokinetic profiles

In February, we were most proud to report new data on PPL-100's resistance profile. To date, PPL-100 has shown in vitro antiviral activity superior to currently-marketed protease inhibitors when tested against 63 HIV strains that have shown resistance to six available protease inhibitors as well as two other compounds currently in clinical studies by pharmaceutical companies. This indicates the potential for good activity against existing protease inhibitor-resistant viruses in treatment-experienced patients or in those patients newly-infected with similar resistant strains.

As oral bioavailability remains a challenge for the HIV protease inhibitor class, we were pleased to report in March significant progress with the development of PPL-100, a pro-drug of PL-100, which is much more water soluble as well as more bioavailable. PPL-100 presents the same favorable cross-resistance profile as the original molecule acquired from Pharmacor. However, its improved solubility and bioavailability should allow for the same therapeutic effect on drug-resistant HIV-infection but with potentially improved dosing characteristics.

Procyon is planning to conduct additional pharmacokinetics studies in another animal species to confirm the results obtained in rodents. The Company is also conducting 14 to 28 day GLP toxicology studies in two different animal species and is on track to file an Investigational New Drug (IND/CTA) submission and initiate a Phase I first-in-man trial with healthy volunteers during the second half of 2005.

In conclusion, I would like to come back on the events that surrounded the announcement of the clinical Phase IIb results with Fibrostat[®]. The Company needed to face this situation responsibly in order to maximize shareholder value in the short to medium term and we therefore decided following year-end to implement a corporate restructuring plan aimed at shifting our focus from an early-stage research company to a late-stage drug development company. We also indicated we would reduce our average monthly burn rate to approximately \$850,000 for the year 2005. The necessary steps have now been taken and, as a result, we are on track to reach this objective.

Unfortunately, we were really disappointed to see how the market reacted to the news. Procyon is not a one-product company and that was regrettably not reflected in our valuation following the announcement. Once more, I wish to remind you that Procyon still has two very promising ongoing programs. Looking ahead, I am confident that the valuation of Procyon will be adjusted as PCK3145 and PPL-100 progress rapidly into their clinical development programs. The Procyon star has not dimmed in any way and, in fact, it will continue to shine as our other programs advance.



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, 2004 and the related notes, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts shown are stated in Canadian dollars. This review was prepared by management from information available to April 29, 2005. Additional information relating to the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com

FORWARD LOOKING STATEMENTS

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.

OVERVIEW

Procyon Biopharma Inc. is a publicly-traded Canadian biotechnology company actively engaged in the discovery and development of innovative products in the fields of oncology and infectious diseases. The Company brings its technologies from the laboratory to the clinical trials and licenses them to larger pharmaceutical partners 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, Procyon is developing a balanced pipeline of both mid- and late-stage products. The lead oncology candidate, PCK3145, is a non-toxic therapeutic agent for the treatment of advanced metastatic prostate cancer that will soon commence Phase IIb clinical trials. The virology candidate, PPL-100, is a next-generation protease inhibitor for the treatment of drug-resistant HIV/AIDS for which the preclinical stages of development are nearing completion prior to filing an Investigational New Drug (IND/CTA) submission during the second half of 2005. Procyon's product portfolio also comprises PL-2500, an integrase inhibitor that addresses a novel mechanism of action for the treatment of HIV/AIDS. The Company also has two out-licensed diagnostic candidates: PSP94 immunoassays, a reliable, quick-and-easy test kit to detect and monitor prostate cancer licensed out to Medicorp Inc. and Colopath[®], a simple screening and monitoring test for colorectal cancer licensed out to IMI International Medical Innovations Inc. The Company is continuing to consider alternative applications for Fibrostat[®], following the announcement of the preliminary results of the Phase IIb clinical trial, which did not meet expected results.

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 our critical accounting estimates were reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2004 and these continue to apply for the quarter ended March 31, 2005.

RESULTS OF OPERATIONS

Quarter ended March 31, 2005 compared with the Quarter ended March 31, 2004

The Company incurred a net loss of \$3,075,203 or \$0.04 per common share for the first quarter of 2005, compared with a net loss of \$3,039,275 or \$0.05 per common share for the same quarter last year.

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

Revenues

Revenues for the current quarter were \$86,075, compared with \$63,679 in the corresponding quarter last year. The higher revenues resulted from an increase in interest income, due to the higher level of cash and short-term investments on hand following the \$17,250,000 financing that was closed on April 7, 2004, partially offset by a reduction in interest rates in the current quarter compared to the first quarter of 2004.

Procyon has not generated any significant revenues from product sales since 1997. Throughout these years, revenues have been earned primarily from research and development tax credits and from interest on available cash balances. We expect to continue to receive such revenues during the next several years, as well as licensing or collaborative research revenues as our products are out-licensed or partnered.

Research and Development Expenses

Research and development expenses amounted to \$2,143,117 in the first quarter of 2005, compared with \$2,246,633 in the same quarter last year. Reduced spending on Fibrostat[®] compared with the first quarter of 2004 was partially offset by increased expenditures on PPL-100. Tax credits increased to \$330,000 in the current quarter from \$293,000 in the same quarter last year, due to the higher level of salaries in the current quarter which more than offset the reduction in payments to Quebec-based contractors. Research and development expenses represented 65% of total expenses before tax credits and restructuring charges in the current quarter, compared with 66% in the corresponding quarter last year.

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 2005, fees paid to external service providers were primarily related to the completion of the Phase IIb clinical trial for Fibrostat[®], pre-clinical costs for PPL-100 and PCK3145 clinical trial costs.

We expect our research and development expenses to continue to be significant 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 programs.

General and Administrative Expenses

General and administrative expenses amounted to \$793,830 in the first quarter of 2005, a decrease of \$8,470 from the total of \$802,300 for the first quarter last year. An increase in non-cash expenses resulting from stock options was offset by a reduction in consulting fees and travel expense.

Other Expenses

Amortization expense decreased to \$210,227 from \$266,184 in the first quarter of 2004. The decrease resulted primarily from the write-off in December 2004 of the carrying value of the Anti-Nucleosome Antibodies (ANsA) technology.

Financial charges increased to \$ 170,786 from \$93,925 in the first quarter last year. The increase was due to the additional interest on the Biolevier loan following the drawdown of an additional \$4,000,000 in December 2004. The interest on the Biolevier loan is being capitalized and added to the outstanding balance of the loan.

On January 18, 2005, the Company announced the preliminary results of its North American Phase IIb clinical trial for Fibrostat[®], which did not meet expected results. Shortly after, on January 26, 2005, the Company announced that it had implemented a corporate restructuring plan aimed at shifting its focus from an early-stage research company to a late-stage drug development company. The restructuring resulted in the closure of three of the Company's research laboratories and the termination of 14 of its 42 employees, mainly in research and administrative support functions. The costs associated with the restructuring amounted to \$172,279. The Company is continuing to consider alternative applications for Fibrostat[®]. Depending on the results, the Company may have to recognize an impairment of the related intellectual property. At March 31, 2005, the net carrying value of intellectual property associated with Fibrostat[®] amounted to approximately \$184,000.

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 \$9 million has been drawn to-date, leaving an amount of \$1 million available for future use.

Cash and cash equivalents and short-term investments totaled \$ 12,267,219 at March 31, 2005, compared with \$15,720,424 at December 31, 2004. The decrease of \$3,453,205 resulted from the utilization of \$3,361,113 to finance operating activities for the first quarter of 2005, including an increase of \$776,884 in non-cash working capital. In addition, \$86,517 was spent in the period for the purchase of property, plant and equipment and intellectual property and an amount of \$5,575 was paid for debt financing costs relating to the second drawdown on the Biolevier facility.

The Biolevier loan does not adversely impact the Company's liquidity at this time, as no capital or interest is repayable prior to November 19, 2006.

Including the balance of \$1 million still available from the Biolevier loan facility referred to above and the 2004 investment tax credits expected to be received in the fourth quarter of 2005, the Company has approximately \$14 million to support its future activities. Management believes that these funds will be sufficient to support its ongoing activities for at least the next 15 months.

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 continue to be significant 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.

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 are located in Canada.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

A summary of the Company's contractual obligations as at December 31, 2004 was disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2004. There was no material change in the amount of such contractual obligations during the quarter ended March 31, 2005. Other than in the normal course of business, the Company has not entered into any other off-balance sheet arrangements during the quarter ended March 31, 2005 and does not expect to enter into any in the near future.

There were no commitments for capital expenditures as at March 31, 2005

RELATED PARTY TRANSACTIONS

There has been no material change during the quarter ended March 31, 2005.

PROPOSED TRANSACTIONS

The Company continually reviews opportunities for mergers and acquisitions that could increase shareholder value. At the present time, the Company has not entered into any signed definitive agreements involving the acquisition or disposition by the Company of assets or businesses.

CHANGES IN ACCOUNTING POLICIES

Accounting guideline 15 – Consolidation of variable interest entities came into effect for annual and interim periods beginning on or after November 1, 2004. Management is of the opinion that this new accounting guideline had no effect on the Company's results for the quarter ended March 31, 2005.

FINANCIAL INSTRUMENTS

The Company does not use currency or other hedging instruments.

OUTSTANDING SHARE DATA

As of April 29, 2005 there are 4,000,000 First Preferred Shares, Series 1 outstanding, unchanged from December 31, 2004. The number of common shares outstanding as of April 29, 2005 is 85,153,899, unchanged from December 31, 2004. The number of stock options outstanding at April 29, 2005 is 4,708,707, a decrease of 220,654 from December 31, 2004. In addition, 13,665,854 warrants are outstanding on April 29, 2005, compared to 16,924,315 at December 31, 2004. The decrease resulted from the expiry without value on April 17, 2005 of warrants to purchase 3,258,461 common shares issued through a private placement on April 17, 2003.

RISKS AND UNCERTAINTIES

The Company's activities involve a number of risks and uncertainties that are generally experienced by the biotechnology industry. The future viability of Procyon depends upon its ability to successfully develop its technologies and products, to enter into licensing agreements and to obtain the regulatory approvals necessary to allow the products to be marketed.

The Company can make no assurance that its products will be developed successfully or receive regulatory approval. The new products of the Company are currently in the research and development stages. The Company can make no assurance that its research and development programs will result in commercially viable products. To achieve profitable operation, the Company, alone or with others, must successfully develop and market its products. To obtain regulatory approvals for the products being developed, clinical trials must demonstrate efficacy and that the products are safe for human use. Unsatisfactory results obtained from a particular study relating to a program may cause the Company or its collaborators to abandon its commitment to that program. The Company can make no assurance that any future animal or human test will yield favourable results.

The Company can make no assurance that products based on its technology, if approved for marketing, will achieve market acceptance. The degree of market acceptance will depend on the efficacy and safety of the product candidates, their potential advantage over alternative products and treatment method. The lack of such market acceptance would have a material adverse effect on the Company's business and financial condition.

To develop its technologies, the Company requires significant investment of financial resources. Consequently, the ability of the Company to obtain the cash needed to finance its operations is fundamental to its future success and therefore constitutes a business risk.

With regard to the concentration of credit risk, investment tax credits recoverable are due from the Québec government. The cash and cash equivalents are comprised of cash held with a Canadian chartered bank and a discount note and bankers' acceptances of three major banks. The short-term investments are held in high quality commercial paper of major corporations, a banker's acceptance and a floating rate note of a government agency.

Certain matters discussed in this report are, by their nature, forward-looking and are subject to risks and other factors that are wholly or partially beyond the control of the Company's management. Consequently, actual results could differ materially.

PROCYON BIOPHARMA INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

As at

	March 31,	December 31,
	2005	2004
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	2,609,651	319,382
Short-term investments	9,657,568	15,401,042
Accounts receivable	219,098	271,973
Investment tax credits recoverable	1,015,000	685,000
Prepaid expenses	133,740	110,320
	13,635,057	16,787,717
Property, plant and equipment	752,205	808,504
Intellectual property	5,139,018	5,180,795
Deferred financing costs	889,441	909,500
	20,415,721	23,686,516
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	590,448	1,066,787
	590,448	1,066,787
Biolevier loan facility	9,586,749	9,417,393
Convertible debenture	50,000	50,000
Preferred shares	4,000,000	4,000,000
	14,227,197	14,534,180
Shareholders' equity (note 3)		
Share capital	61,461,900	61,461,900
Warrants	2,904,038	2,904,038
Contributed surplus	4,107,185	3,995,794
Equity component of convertible debenture	1,005,000	1,005,000
Deficit	(63,289,599)	(60,214,396)
	6,188,524	9,152,336
	20,415,721	23,686,516

See accompanying notes

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

	Three months ended	
	March 31,	
	2005	2004
	\$	\$
REVENUES		
License revenue	-	9,617
Interest and other income	86,075	54,062
	86,075	63,679
EXPENSES		
Research and development	2,143,117	2,246,633
Research and development tax credits	(330,000)	(293,000)
Net research and development	1,813,117	1,953,633
General and administrative	793,830	802,300
Amortization of property, plant and equipment	60,972	76,530
Amortization of intellectual property	123,621	173,061
Amortization of deferred financing fees	25,634	16,593
Interest on Biolevier loan facility	169,356	92,534
Restructuring charges (note 2)	172,279	-
Financial charges	1,430	1,391
Foreign exchange losses (gains)	1,039	(13,088)
	3,161,278	3,102,954
Net loss	(3,075,203)	(3,039,275)
Deficit, beginning of period	(60,214,396)	(42,191,340)
Deficit, end of period	(63,289,599)	(45,230,615)
Basic and diluted loss per share	(0.04)	(0.05)
Weighted average number of common shares outstanding	85,077,563	67,300,788

See accompanying notes

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

	Three months ended	
	March 31,	
	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Net loss	(3,075,203)	(3,039,275)
Items not affecting cash		
Amortization of property, plant and equipment	60,972	76,530
Amortization of intellectual property	123,621	173,061
Amortization of deferred financing fees	25,634	16,593
Write-down of investments	-	7,001
Loan interest capitalized	169,356	92,534
Non-cash license revenues	-	(4,417)
Services paid by issuance of stock options (note 3)	111,391	60,919
	(2,584,229)	(2,617,054)
Net change in non-cash balances relating to operations	(776,884)	(783,703)
Cash flows related to operating activities	(3,361,113)	(3,400,757)
INVESTING ACTIVITIES		
Acquisition of intellectual property	(81,844)	(2,962)
Acquisition of property, plant and equipment	(4,673)	(24,419)
Maturities of short-term investments	5,743,474	3,502,284
Cash flows related to investing activities	5,656,957	3,474,903
FINANCING ACTIVITIES		
Issue of common shares	-	83,310
Repayment of long-term debt assumed in an acquisition	-	(2,618)
Debt financing costs	(5,575)	-
Cash flows related to financing activities	(5,575)	80,692
Net increase in cash and cash equivalents	2,290,269	154,838
Cash and cash equivalents, beginning of period	319,382	476,673
Cash and cash equivalents, end of period	2,609,651	631,511
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, 2005

(unaudited)

1. Basis of presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements 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, 2004.

2. Corporate Restructuring

On January 18, 2005, the Company announced the preliminary results of its North American Phase IIb clinical trial for Fibrostat[®], which did not meet expected results. Shortly after, on January 26, 2005, the Company announced that it had implemented a corporate restructuring plan aimed at shifting its focus from an early-stage research company to a late-stage drug development company. The restructuring resulted in the closure of three of the Company's research laboratories and the termination of 14 of its 42 employees, mainly in research and administrative support functions. The costs associated with the restructuring amounted to \$172,279. The Company is continuing to consider alternative approaches to its clinical trial strategy, as well as other therapeutic uses for Fibrostat[®]. Depending on the results, the Company may have to recognize an impairment of the related intellectual property. At March 31, 2005, the net carrying value of intellectual property associated with Fibrostat[®] amounted to approximately \$184,000.

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, 2004 and March 31, 2005	85,153,899	61,461,900

Stock option plan

As at March 31, 2005, there were 4,642,457 stock options outstanding, compared to 4,929,361 at December 31, 2004.

	Three months ended March 31, 2005		2004	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Options outstanding, beginning of period	4,929,361	0.83	3,638,500	1.25
Granted	150,000	0.45	457,500	1.02
Forfeited	(436,904)	0.91	(60,000)	1.89
Exercised	-	-	(90,500)	0.92
Options outstanding, end of period	4,642,457	0.81	3,945,500	1.22
Exercisable	2,973,272	0.80	3,050,501	1.35

Procyon Biopharma Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(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 \$74,583 (2004 - \$34,263) has been recognized in the quarter for stock options granted to employees and directors and an additional amount of \$36,808 (2004 - \$26,656) has been expensed for options granted to consultants. All options granted during the quarter were to consultants and the fair value of those options was determined using the Black-Scholes option pricing model with a volatility factor of from 79% to 88%, a risk-free interest rate of approximately 3%, a dividend yield of nil and an expected life of the options of from 21 to 27 months.

Effective January 1, 2003, the Company began prospectively recording compensation expense for awards granted to employees and directors. 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, 2005	Three months ended March 31, 2004
Net loss – as reported	\$(3,075,203)	\$(3,039,275)
Net loss – pro forma	(3,075,203)	(3,054,293)
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Loss per share – basic and diluted		
As reported	\$(0.04)	\$(0.05)
Pro forma	(0.04)	(0.05)
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Contributed surplus		\$
Balance as at December 31, 2004		3,995,794
Options issued to consultants		36,808
Options granted to employees and directors		74,583
Balance as at March 31, 2005		4,107,185

The fair value of options granted to employees and directors since January 1, 2003 is being recorded as an expense over their vesting period, with a corresponding credit to Contributed Surplus.