PROCYON BIOPHARMA

Dear friends and shareholders:

August 10, 2005

We are pleased to submit this report on the results for the second quarter ended June 30, 2005. While the development of our existing programs, PCK3145 and PPL-100 progresses, the second quarter of 2005 marked the successful completion of the acquisition of Bioxalis Medica Inc., a Montreal-based biopharmaceutical company committed to the discovery and development of targeted liposomes for cancer treatment. This acquisition was accompanied by a concurrent financing of $3.5 million and brings into Procyon's oncology pipeline a very innovative and promising anti-cancer technology, TVT-Dox.

ONCOLOGY UPDATE

TVT-Dox - An asset to Procyon's oncology pipeline

TVT-Dox is a Tumor Vasculature Targeting technology that can be used to treat cancer patients by selectively destroying blood vessels that feed the tumor and are involved in metastases but not in normal tissues. Research to date has shown TVT-Dox to be a very potent anti-tumor agent, with seven-out-of-seven positive results in animal models and six-out-of-six positive results with human tumor biopsies. Preclinical studies are to be initiated with the intent to file an Investigational New Drug (IND) application within the next 12 months.

PCK3145 - As effective when administrated once a week

During the second quarter of 2005, we were pleased to report the first results of an amendment/continuation to the U.K. Phase IIa study for our therapeutic peptide PCK3145 for the treatment of advanced metastatic prostate cancer. This amendment/continuation was conducted in order to evaluate the feasibility of a less frequent dosing regime than the three times per week used in the original study. The first results were very positive in this regard, as they showed PCK3145 to be as effective when administrated once a week. This is a tremendous step forward, as it implies the need for less frequent visits by patients to the hospital and offers a more acceptable administration option to these patients for the future.

Our efforts and progress in cancer development were recognized this quarter when we received the 2005 Frost & Sullivan Award for excellence in technology in the field of emerging cancer therapies.

Colopath®/ColorectAlert™ - Nearing commercialization

Procyon's licensing partner, IMI International Medical Innovations Inc., announced that members of the U.S. National Cancer Institute's Early Detection Research Network's (EDRN) and the Great Lakes-New England Clinical Epidemiology Center Consortium will include ColorectAlert™ in a major colorectal cancer clinical trial. This 600-patient study is expected to support ColorectAlert™'s effectiveness as a tool for the early detection of colorectal cancer. This event is a significant step forward in the continued development of Colopath®/ColorectAlert™. In 2001, Procyon licensed out to IMI the worldwide rights to Colopath®, its colorectal cancer rectal mucus-based test. The terms of the agreement include upfront and milestone payments as well as a royalty on sales of any rectal mucus-based screen test for colorectal cancer.

VIROLOGY UPDATE

Presentation of PPL-100 at two major HIV conferences

During the second quarter of 2005, Procyon presented the first pharmacokinetics results obtained with PPL-100, our phosphorylated pro-drug of its protease inhibitor, PL-100 at the 6th International Workshop on Clinical Pharmacology of HIV Therapy and the XIV International HIV Drug Resistance Workshop, both held in Quebec City. Work continues towards the development of PPL-100 as a once daily drug that does not require ritonavir boosting.

CORPORATE UPDATE

The second quarter of 2005 saw a very successful Procyon Oncology and HIV symposium that was held in New York City and at which Procyon's PCK3145 and PPL-100 programs were presented to members of the United States financial and investment community. I would like to take this opportunity to thank also our external collaborators Dr. Howard Scher, Dr. Richard Béliveau and Dr. Mark Wainberg for their participation and contribution to this event.

In line with the new guidelines for effective corporate governance both in Canada and the United States, I stepped down as Chairman of the Board and my recommendation to have Dr. Max Link take my place was unanimously accepted by the Directors. Dr. Link, a non-management director of Procyon since 1999, will have the responsibility to oversee that the Board discharges its responsibilities.

In conclusion, Procyon again successfully integrated another very promising company and technology with a concurrent financing. Procyon continues to strive to become an even more prominent player in the Canadian biotechnology industry, building value through the growth and diversification of its product pipeline.

The second quarter of 2005 closed with our AGM, at which I was pleased to be able to meet many of you in person. I thank you for your continued support.

Hans J. Mäder
President & Chief Executive Officer