GenomeQuébec

Annual report 2003 _ 2004

FOLLOWING THE THREAD OF LIFE

ONE STITCH AT A TIME, RESEARCH ADVANCES

After the discovery of the double helix structure of DNA 50 years ago, genomic research in human health, forestry and the environment has advanced at a prodigious rate. Because it's now possible to decelerate a predisposition to certain illnesses and understand their origin, it's not hard to imagine that, tomorrow, it will be possible to diagnose diseases faster, treat them more effectively and, above all, prevent them altogether.

1869 DNA is discovered

The word "gene" is created **1909**

1953 The DNA double helix is described

RNA discovered **1961**

A WORD FROM THE PRESIDENT OF THE BOARD OF DIRECTORS

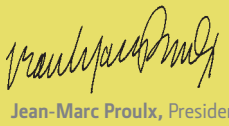
Genome Quebec was founded to enable researchers in Quebec to aspire to a global level of excellence in genomics and proteomics research. Consequently, over 350 researchers have been recruited in the past three years to work on the 17 major projects we are funding. The outcome is that the structuring, mobilizing role of Genome Quebec is increasingly making a name for itself in Quebec's health care and life sciences sectors.

This allows Quebec to play a full role in the genomics revolution that is completely changing how we understand life. The discovery of biological mechanisms at the source of many diseases will make it possible to improve the design of new drugs, and Quebec researchers will now be able to contribute to this effort with their own particular talents.

Also worth noting is all the energy expended to coach researchers with their project proposals for the Applied Genomics and Proteomics Research in Human Health competition. The results were received in April: over 33% of the funding awarded by Genome Canada is coming our way, allowing us to add four new projects in the next year.

Genome Quebec's business model also targets the funding of upstream research leading to proofs of concept ready to be turned into commercially viable products. And since we hope to see a return to optimism among risk capital investors in the biotech sector in 2004, we plan to play a very active role in growing the value of our most promising inventions.

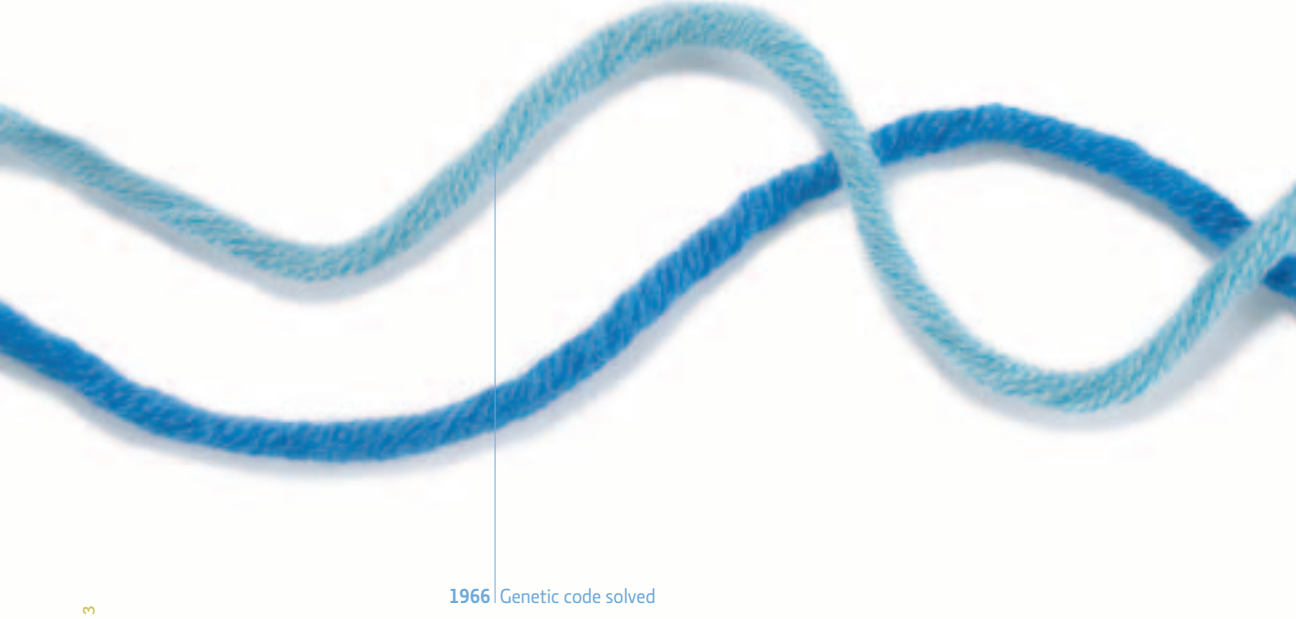
On behalf of the board of directors, I would like to sincerely thank all Genome Quebec personnel, and especially Paul L'Archevêque, its President and CEO, for this outstanding year.



Jean-Marc Proulx, President of the Board of Directors

Members of the Board of Directors

Dr. Louis Berlinguet – Administrator > **Dr. Chantal Brunet,** Vice-President, Sciences, Innovatech Québec and Chaudières-Appalaches > **Mtre. Jean Brunet** – Secretary, Lawyer, Desjardins Ducharme Stein Monast > **Luc Tanguay** – President and CEO, Theratechnologies Inc. > **Dr. Jean-Claude Cadieux** – Vice-President, Management Consultant > **Hélène Desmarais,** President of the Board of Directors and CEO, Centre d'entreprises et d'innovation de Montréal > **Sylvie Dillard,** President and CEO, Fonds québécois de la recherche sur la nature et les technologies > **Dr. Martin Godbout,** President and CEO, Genome Canada > **Georges Archambault** – Observer, Assistant Deputy Minister, Ministère du Développement économique et régional et de la recherche – Direction Générale de la Recherche et Innovation > **Paul L'Archevêque** – President and CEO, Genome Quebec > **Jean-Marc Proulx** – President of the Board of Directors, President and CEO, Gestion Valeo.



1966 Genetic code solved

A WORD FROM THE PRESIDENT AND CEO OF GENOME QUEBEC

Another year has gone by, accompanied by an impressive array of achievements of which the entire Genome Quebec team can be proud! These giant steps, taken at an unbridled, stimulating pace, are contributing to the organization's mission and helping us achieve our business objectives.

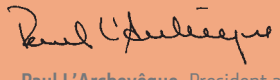
Genome Quebec continued growing and consolidated its assets in 2003 – 2004. With the announcement last April of the Applied Genomics and Proteomics Research in Human Health funding initiative, Quebec will receive 33% of all the funds granted by Genome Canada for four new research projects. This will allow us to grow our business plan from $175 to $220 million and create possible forthcoming spin-offs for the health care system.

We must not forget the predominant role Genome Quebec played in the creation of a world-class infrastructure reflected, for example, in the implementation of the international HapMap Project, a partnership of scientists and funding agencies from Quebec, the rest of Canada, China, Japan, Nigeria, the U.K., and the U.S., as well as the establishment of the HUPO (Human Proteome Organization) head office right here in Montréal.

I would be terribly remiss if I did not mention the outstanding success of the McGill University and Genome Quebec Innovation Centre in deploying a series of new, advanced technologies, where over 200 researchers are benefiting from specialized services and participating in over 120 large research projects spanning more than 35 national and international institutions.

In terms of international scientific outreach, Genome Quebec managed to interest and attract no fewer than four researchers from countries like France, the U.S. and Sweden to set up in Quebec. Also, over 150 articles were published in specialized periodicals such as Nature, Science, PNAS, and many more.

Thanks to a committed scientific community, a board of directors that supports and guides us, and an incredibly dedicated team, I'm sure you can't help but agree with me that our mission is well on the way to being fulfilled.



Paul L'Archevêque, President and CEO

To find out more, please visit our Web site at www.genomequebec.com

First transgenic mice and fruit flies | **1981**

1972 | First animal gene cloned

KEY ACHIEVEMENTS IN 2003 – 2004

April 2003

_ Announcement of the creation of a university research consortium for bioinformatics in Quebec in collaboration with CGI.

_ Second Annual Congress of researchers involved in major Genome Quebec projects, during BioMedex.

_ Series of radio shows entitled *Dr. Fortin.santé* focussing on the impacts of genomics.

_ Science Fair Quebec Gala: genomics prize and work term at McGill University and Genome Quebec Innovation Centre.

_ Funding ($4 M) obtained from Valorisation Recherche Québec/Fonds québécois sur la nature et les technologies/ Fonds de la recherche en santé du Québec for bioinformatics projects with Quebec universities.

_ New agreement between CGI and Genome Quebec to develop a bioinformatics platform.

May

_ Acknowledgement by Genome Quebec of 47 letters of intent for evaluation under the Applied Genomics and Proteomics Research in Human Health Competition organized by Genome Canada.

June

_ Support for Citizens' Forum on Genomics in collaboration with the Groupe de recherche en bioéthique (GREB).

_ Interim review of Competition 1 projects.

_ Publishing of 2002 – 2003 Annual Report.

_ Transmission to Genome Canada of 27 letters of intent under the Applied Genomics and Proteomics Research in Human Health Competition organized by Genome Canada.

July

_ Student term at McGill University and Genome Quebec Innovation Centre:
- Five weeks for two Collège Jean-de-Brébeuf students;
- Three months of training for seven students at university or college level;
- Familiarisation program for six CEGEP students.

_ Acknowledgement of results of evaluation of letters of intent for the Applied Genomics and Proteomics Research in Human Health Competition organized by Genome Canada: 17 projects from Quebec and two inter-centre projects nominated.

August

_ Publication of table of benefits/ performance measures for Competition 1 and 2 projects.

_ Preparation of CARTaGENE project as part of an international research consortium for the Public Population Project in Genomics.

1987 | First human genetic map

1983 | Discovery of first gene linked to a disease: Huntington's chorea

September

_ Inauguration of McGill University and Genome Quebec Innovation Centre.

_ Meeting of Science and Industry Advisory Committee (SIAC).

_ Second Annual Congress of Genome Canada and presentation of Genome Quebec researchers in Competitions 1 and 2.

October

_ Participation in the organization of the Human Proteome Organization (HUPO) Congress.

_ 14 projects and two inter-centre projects selected by FRSQ for submission to Genome Canada under the Applied Genomics and Proteomics Research in Human Health Competition organized by Genome Canada.

_ Confirmation of establishment of international headquarters of the Human Proteome Organization (HUPO) at McGill University and Genome Quebec Innovation Centre.

November

_ Transmission of applications selected for Applied Genomics and Proteomics Research in Human Health Competition organized by Genome Canada.

January 2004

_ Inauguration at Université de Montréal, of Centre Robert-Cedergren specialized in bioinformatics.

February

_ Genome Quebec participation in Flanders DC in Belgium, organized in collaboration with Quebec delegation in Brussels.

_ Creation and inauguration of Institut de populations et de génomique (IPEG) in collaboration with Fonds de recherche en santé du Québec and Université de Montréal.

March

_ Participation in Mexican mission organized by Ministère du Développement économique et régional et de la recherche and Ministère des Relations internationales in order to establish relationship/partnership between Québec and Mexico.

Key achievement leading into 2004 – 2005 fiscal year

_ Genome Quebec obtains an additional $42 million from Genome Canada for four new Applied Genomics and Proteomics Research in Human Health projects.

2000 _ Sequencing of fruit fly genome
_ 90% sequencing of human genome

1994 First genetically altered food item put on the market: a tomato called Flavr Savr

1997 Sequencing of *E. coli* genome

1998 Sequencing of roundworm *C.elegans* genome

1996 _ Sequencing of yeast genome
_ First mammal cloned: Dolly

EDUCATIONAL SECTION

For the second consecutive year, Genome Quebec joined the *Conseil de développement du loisir scientifique du Québec* as an honoured Science Fair partner in a large scientific competition recognized by the education network as promoting science and career opportunities in that field among Quebec youth. This competition allows young people less than 21 years of age to explore a variety of scientific topics through experimental, design or popularisation activities.

"It's a real pleasure for me every year," said Dr. Guy Bellemarre, Scientific Director of Genome Quebec, who participates as a judge in this adventure. "When I was their age, I would really have appreciated a chance to present my projects to experienced scientists!"

And the hour of truth truly arrived for the up and coming scientists at the Bell Super Science Fair, Quebec 2004 Final, which wrapped up at Université Laval, with the awards ceremony.

Genome Quebec would like to congratulate Kota Talla, from Centennial Regional High School Montréal, Regional Science & Technology Fair, for the quality of his project entitled *Cycling Back to the Origins.* Besides winning the Genome Quebec Prize, which came with a bursary of $1,000 and a one-day work term at the McGill University and Genome Quebec Innovation Centre, Mr. Talla also won the following prizes:

- a $2,000 scholarship to Université de Sherbrooke;
- participation in the Pan-Canadian Science Fair in Newfoundland in May 2004;
- participation in the International Science Fair in Santiago (Chile) in 2005.

Genome Quebec's fundamental goal is to grow genomics and proteomics research capabilities so Quebec can occupy its rightful place in this industry. The Science Fairs are an excellent investment in Quebec's scientific and technological future.

2003 | 100% sequencing of human genome

THE GEE! IN GENOME: THE FIRST CANADIAN GENOMICS EXHIBITION

The Gee! in Genome exhibition is an innovative, multidimensional public education project produced by the Canadian Museum of Nature (CMN) and presented nationally by Genome Canada, in partnership with the Canadian Institutes of Health Research. The project includes a touring hands-on bilingual exhibition, "suitcase" exhibits, a series of interactive public programs, curriculum-based school programs, a series of national forums for both youth and adults, and a dynamic Web site.

The Gee! in Genome opened in the Canadian Museum of Nature on April 25, 2003, a date coinciding with the 50th anniversary of the first scientific publication describing the double helix structure of DNA.

The *Centre des sciences de Montréal* will host the exhibition from January 24 to April 24, 2005, followed closely by the *Musée du Fjord* in Saguenay City – La Baie Sector from September to December of the same year.

To prepare for the arrival of The Gee! in Genome exhibition, Genome Quebec, working with the *Conseil de développement du loisir scientifique* (CDLS), is offering Quebec students an educational "suitcase" that contains a fast-track course in genomics.

To find out more, please visit our Web site at www.genomequebec.com

OUR PROJECTS ARE COMING TO LIFE, ONE STITCH AT A TIME

Stitch by stitch, Genome Quebec is becoming a leader in human sciences. The socio-economic impact of Genome Quebec's projects was quite impressive during the four quarters of 2003 – 2004. Since the creation of the organization in 2000, more than 600 jobs were created and some 15 invention registrations were submitted.

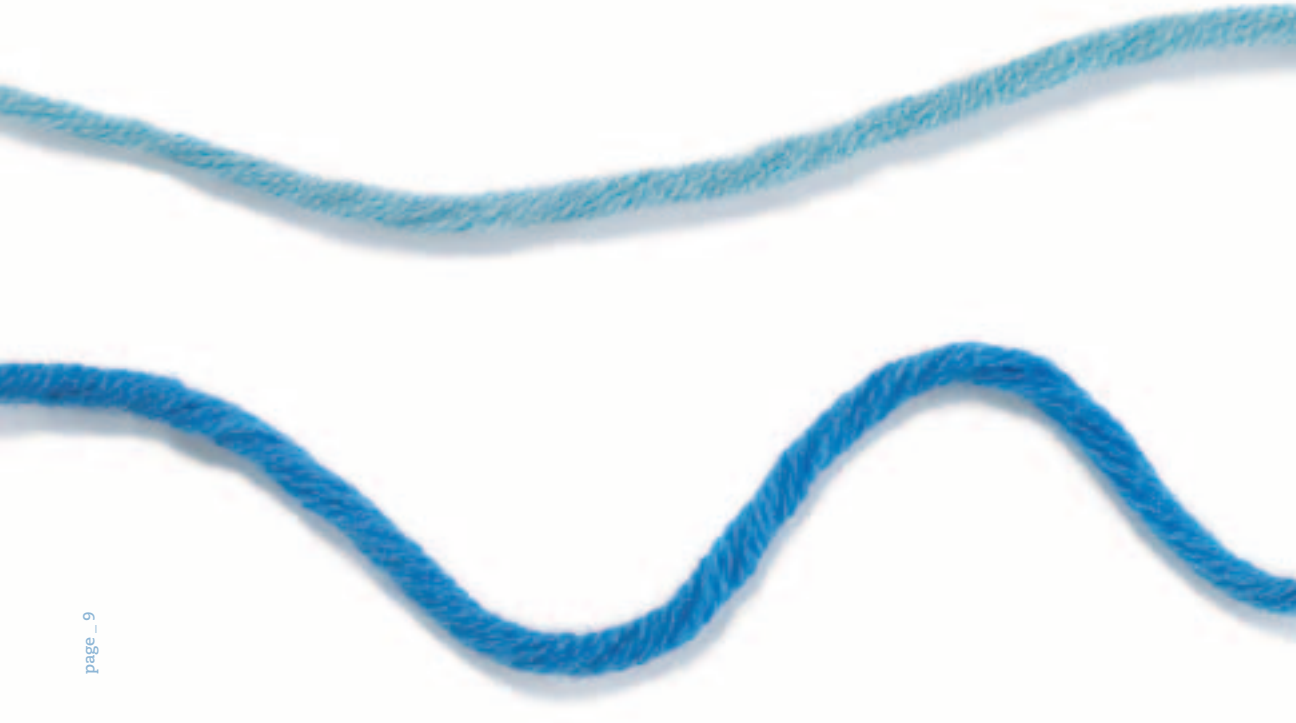
To this can be added a patent for the development of transgenic mice, a technology developed on Dr. Thomas Hudson's Regulatory Genetics project, which was licensed with Nucleis, a French firm. Genome Quebec is also negotiating with three other companies regarding possible marketing opportunities.

The McGill University and Genome Quebec Innovation Centre

The McGill University and Genome Quebec Innovation Centre is now two years old. Despite its youth, the Centre has become a key driver, enabling Quebec to play an increasingly important role in the international arena.

With its technology platforms providing genotyping, sequencing, DNA smart chip and proteomics services, the McGill University and Genome Quebec Innovation Centre represents a pool of highly sophisticated equipment used by researchers from both academia and industry. This rapid growth means we can plan the Centre's next steps, which is focusing efforts mainly on bioinformatics, including a training platform in that field (BIONEQ) and, more recently, pharmaco-genomics sectors.

The McGill University and Genome Quebec Innovation Centre has also managed to recruit Canadian researchers who were pursuing their careers in the U.S. by facilitating their return to Canada, and, more particularly, to Quebec. The opportunities available at the Centre mean they can continue their research work by accessing the latest technologies that have only been accessible in major U.S. research centres until now.



COMPLETE LIST OF GENOME QUEBEC'S PROJECTS BY THEME

HUMAN HEALTH PROJECTS

Atlas of Genomics Profiles of Steroid Action

Dr. Fernand Labrie, Centre de Recherche du CHUL

Projects in Functional Genomics Using Model Organisms

Dr. Howard Bussey, McGill University

Montréal Network for Pharmaco-Proteomics and Structural Genomics

Dr. John J. M. Bergeron, McGill University

Regulatory Genetics: Identification of Regulatory Polymorphisms in the Human Genome

Dr. Thomas J. Hudson, McGill University

Integrative Genomics for Women's Health Program

Dr. Mario Filion, Alethia BioTherapeutics

High-throughput Mutation Screening of Ion Channel Genes in Familial Neurological Disorders

Dr. Guy Rouleau, Emerillon Therapeutics Inc.

Genetic Dissection of Complex Traits Using Phenotypic and Expression Analysis of Recombinant Congenic Mouse Strains

Dr. Emil Skamene, Emerillon Therapeutics Inc.

Genome-wide Essential Gene Identification in *Candida albicans* and Application to Antifungal Discovery

Dr. Terry Roemer, Elitra

High-throughput Functional Genomics Using Modified Nucleic Acid (MoNA) Technologies

Dr. Sherif Abou Elela, Université de Sherbrooke

Functional Genomics, Pharmacogenomics and Proteomics of the Immune Response in Health and Immune Related Disorders

Dr. Rafick-Pierre Sékaly, Université de Montréal

A Haplotype Map of the Human Genome – Biomedical Tool for Genetic Research in Canada

Dr. Thomas Hudson, McGill University

Regulatory Networks in Gene Expression: From the Genome to the Organism

Dr. Benoit Coulombe, Institut de Recherches Cliniques de Montréal (IRCM)

PROJECTS ANNOUNCED FOR APPLIED GENOMICS AND PROTEOMICS RESEARCH IN HUMAN HEALTH COMPETITION
(APRIL 2004)

Chemogenomics-Driven Drug Discovery in the Human Fungal Pathogen, *Candida albicans*

Dr. Deming Xu and Dr. Sébastien Lemieux, Elitra Canada

The Genetics of Type 2 Diabetes Mellitus Project

Dr. Barry Posner and Dr. Marc Prentki, McGill University and Université de Montréal

Novel Rapid Molecular Theranostic Technologies for Nucleic Acid Detection

Dr. Michel G. Bergeron, Université Laval

Risk for Colorectal Tumours in Canada (ARCTIC)

Dr. Thomas Hudson and Dr. Brent Zanke (project co-directed with Ontario), McGill University and University Health Network

BIOINFORMATICS PROJECTS

Identification, Profiling, and Functional Assignment of the Expressed Genome

Dr. Sherif Abou Elela, Université de Sherbrooke

Ontologies, The Semantic Web, and Intelligent Systems For Genomics

Dr. Volker Haarslev, Concordia University

High Resolution, High Throughput Identification and Quantification of Proteins

Dr. Robert Kearney, McGill University

Overview of Informatics and Chemical Genomics Program

Dr. Robert Nadon, McGill University

Overview of High Throughput Gene Expression Research Program

Dr. Robert Nadon, McGill University

Integrated and Comparative Bioinformatics

Dr. Hervé Philippe, Université de Montréal

ETHICS PROJECT

Genomics and Society:
Responsibilities and Rights

Dr. Bartha Knoppers, Université de Montréal

ENVIRONMENTAL PROJECT

Genomic Approach to Identify Fungal Enzymes for Industrial Processes and Environmental Remediation

Dr. Adrian Tsang, Concordia University

FORESTRY PROJECT

Functional Genomics of
Regulation in Forest Trees

Dr. John MacKay, Université Laval

INTER-CENTRE PROJECTS

Agriculture Project
Functional Genomics of Abiotic Stress

Dr. Fathey Sarhan, Université du Québec à Montréal

Fundamental Research
Protist EST Sequencing Program

**Dr. Franz Lang and Gertraud Burger,
Université de Montréal**

To find out more, please visit our Web site at www.genomequebec.com

PARTNERS

Partner Forum

Dr. Alain Beaudet - Fonds de la recherche en santé du Québec > **Dr. Guy Bellemare** - Genome Quebec > **Mrs. Marie-Josée Blais** - Ministère du Développement économique et régional et de la recherche > **Dr. Edwin Bourget** - Université de Sherbrooke > **Dr. Alain Caillé** - Université de Montréal > **Dr. John A. Capobianco** - Concordia University > **Dr. Daniel Coderre** - Université du Québec à Montréal > **Mrs. Sylvie Dillard** - Fonds québécois de la recherche sur la nature et les technologies > **Mr. Gilbert Drouin** - Valorisation-Recherche Québec > **Mr. Paul L'Archevêque** - Genome Quebec > **Dr. Pierre Lavigne** - Valorisation-Recherche Québec > **Dr. Raymond Leblanc** - Université Laval > **Dr. Louise Proulx** - McGill University

SIAC Committee (Science and Industry Advisory Committee)

Dr. Samir Hanash - President, University of Michigan Medical Center > **Dr. Anne Cambon-Thomsen** - Université de Toulouse, France > **Dr. Nam-Hai Chua** - The Rockfeller University, New York > **Dr. Jean Feunteun** - Institut Gustave Roussy, Villejuif, France > **Dr. Kathryn Howell** - University of Colorado School of Medicine > **Dr. Charles Scriver** - Montréal Children's Hospital Research Institute

Audit Committee

Dr. Louis Berlinguet - President > **Dr. Chantal Brunet** > **Dr. Jean-Claude Cadieux**

IRCM (Institut de Recherches Cliniques de Montréal)

Universities: Centre hospitalier universitaire de Laval (CHUM), Université du Québec à Montréal (UQAM), McGill University, Université de Sherbrooke, Concordia University, Université de Montréal, Université Laval.

Alethia Biotherapeutics

Développement économique et régional et Recherche Québec

Elitra Canada

FINANCIAL STATEMENTS

Genome Quebec
Year ended March 31, 2004

> MANAGEMENT'S REPORT

Genome Quebec's management team is responsible for producing the financial statements and submitting them. This responsibility includes the choice of appropriate accounting policies that comply with the Canadian generally accepted accounting principles. The financial information contained in the rest of the annual report concurs with the information provided in the financial statements.

To fulfil its responsibilities, Genome Quebec maintains an internal accounting control system as well as a project management system. These systems are designed to provide reasonable assurance that the funding allocated to Genome Quebec and its operations are properly accounted for within the required deadlines and that they are duly approved and used to produce reliable financial statements.

The board of directors must monitor how management meets its responsibilities with regard to financial information; it approves the financial statements. The audit committee, the members of which do not belong to management, assists the board of directors. This committee meets with management and the auditors, then analyses, examines and discusses the financial statements and recommends the approval to the board of directors.

HIGHLIGHTS OF FISCAL YEAR ENDED MARCH 31, 2004

As of March 31, 2004, Genome Quebec was managing a project portfolio worth in the order of $175 million, including technology platform services. Its key sources of funding are provided by Genome Canada and Quebec's *Ministère du Développement économique et régional et de la recherche*, which to date have paid out $102.2 million ($43.3 million in 2003).

Since the beginning of operations, Genome Quebec's activities represent cumulative contributions totalling $71.8 million in 2004, compared to $27.0 million in 2003, that is, $44.8 million for the fiscal year ending March 31, 2004. Furthermore, Genome Quebec purchased a total of $9.8 million in equipment, for use on its research projects, compared to $7.0 million in 2003.

The McGill University and Genome Quebec Innovation Centre, which provides technology services, had generated $7.9 million in revenues as of March 31, 2004, compared to $3.3 million in 2003.

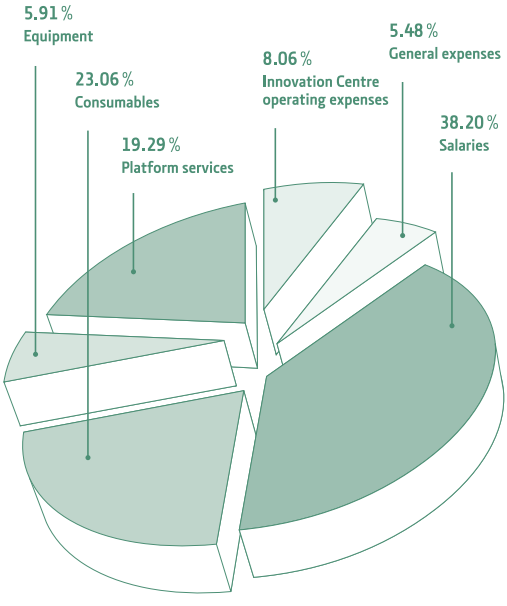
Genome Quebec's administrative expenses total $1.7 million ($2.4 million in 2003) and comprise a payroll of $0.9 million, public relations and business development activities of $0.3 million, professional fees of $0.1 million, and office and other expenses of $0.4 million. Genome Quebec has reduced its administrative expenses to ensure the continuity of its administrative centre through March 31, 2006.

Considerable efforts at all levels of the organization have enabled Genome Quebec to achieve this rapid growth within its allocated budget and contractual guidelines.

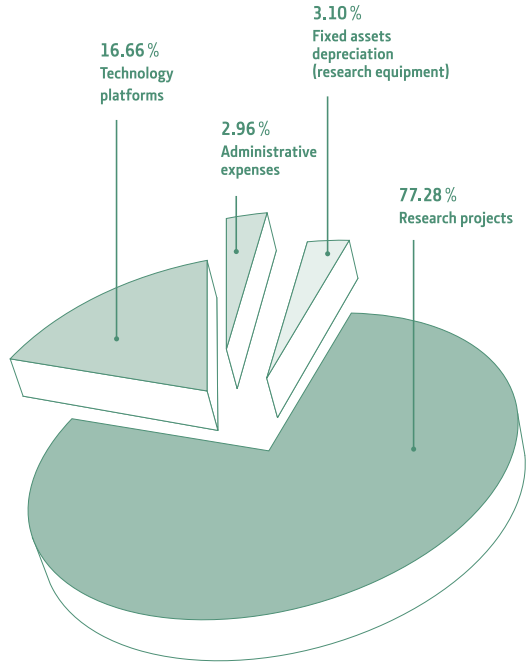
STATISTICS

Genome Quebec – Driving Job Creation

Funding distribution by type of expenditure for research projects, the McGill University and Genome Quebec Innovation Centre and the administrative centre.



Genome Quebec – Driving Research*



* Total investment in research: 97 %

Paul L'Archevêque
President and CEO
Genome Quebec

Lise Aubin
Vice-President, Finance and Investments
Genome Quebec

AUDITORS' REPORT TO THE DIRECTORS

We have audited the statement of financial position of Genome Quebec as at March 31, 2004 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada
June 2, 2004

GENOME QUEBEC

Financial Statements
Year ended March 31, 2004

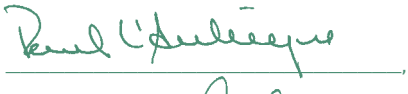
GENOME QUEBEC

Statement of Financial Position
March 31, 2004, with comparative figures for 2003

	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents (note 3)	$ 18,425,781	$ 7,197,315
Short-term investments	-	1,000,000
Accounts receivable (note 4)	1,380,104	975,465
Advances to genomic research projects	3,332,539	1,084,528
Inventories	912,056	929,433
Prepaid expenses	234,453	182,578
	24,284,933	11,369,319
Long-term investments (note 5)	941,892	1,100,130
Capital assets (note 6)	6,414,009	5,470,143
	$ 31,640,834	$ 17,939,592
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 3,388,829	$ 2,375,792
Deferred contributions:		
Future expenses (note 8)	21,837,996	10,093,657
Capital assets (note 9)	6,414,009	5,470,143
	28,252,005	15,563,800
Unrestricted net assets	-	-
Commitments (note 12)		
Subsequent event (note 13)		
	$ 31,640,834	$ 17,939,592

See accompanying notes to financial statements.

On behalf of the Board:



, Paul L'ARCHEVÊQUE, Director

, Jean-Marc PROULX, Director

GENOME QUEBEC

Statement of Operations and Changes in Net Assets
Year ended March 31, 2004, with comparative figures for 2003

	2004	2003
Revenues:		
Amortization of deferred contributions related to expenses (note 8)	$ 44,756,670	$ 20,489,026
Amortization of deferred contributions related to capital assets (note 9)	1,811,535	1,184,259
Revenues from technology platforms	7,917,627	3,276,092
	54,485,832	24,949,377
Expenses:		
Genomic research projects	41,221,392	16,669,010
Technology platforms	6,932,641	3,388,587
Innovation Centre	2,793,749	1,162,834
General and administrative	1,726,515	2,444,687
New development program	-	100,000
Depreciation of capital assets	1,811,535	1,184,259
	54,485,832	24,949,377
Excess of revenues over expenses, being net assets, end of year	$ -	$ -

See accompanying notes to financial statements.

GENOME QUEBEC

Statement of Cash Flows
Year ended March 31, 2004, with comparative figures for 2003

	2004	2003
Cash flows from operating activities:		
Excess of revenues over expenses	$ -	$ -
Adjustments for:		
Depreciation of capital assets	1,811,535	1,184,259
Amortization of deferred contributions related to expenses (note 8)	(44,756,670)	(20,489,026)
Amortization of deferred contributions related to capital assets (note 9)	(1,811,535)	(1,184,259)
Operating losses of the subsidiary and the company subject to significant influence	5,059,103	2,006,832
	(39,697,567)	(18,482,194)
Grants received and investment income	59,243,635	21,305,835
Change in assets and liabilities:		
Accounts receivable	(391,864)	(729,052)
Advances to genomic research projects	(1,564,906)	656,513
Inventories	17,377	(450,913)
Prepaid expenses	(51,875)	(147,071)
Accounts payable and accrued liabilities	1,013,037	1,074,831
	(978,231)	404,308
	18,567,837	3,227,949
Cash flows from investing activities:		
Change in short-term investments	1,000,000	11,500,000
Purchase of capital assets	(3,438,506)	(4,450,203)
Acquisition of long-term investments	(4,900,865)	(3,106,962)
	(7,339,371)	3,942,835
Net increase in cash and cash equivalents	11,228,466	7,170,784
Cash and cash equivalents, beginning of year	7,197,315	26,531
Cash and cash equivalents, end of year	$ 18,425,781	$ 7,197,315

Supplemental cash flow information (note 10)
See accompanying notes to financial statements.

GENOME QUEBEC

Notes to Financial Statements
Year ended March 31, 2004

Genome Quebec was incorporated on June 29, 2000 under Section II of the Canada Corporations Act. Genome Quebec is a not-for-profit organization and has the following objectives:

(a) to develop and maintain in the province of Quebec a coordinated approach and an integrated strategy in the fields of genomic research (including the health, agriculture, environment, forestry, and fisheries fields) by bringing together the intervening parties from the industry, governments, universities, research centres and laboratories, as well as any other person or organization interested in advancing the goals of the Corporation;

(b) to create, operate and support an infrastructure network in genomics giving Quebec researchers access to a high technology expertise;

(c) to ensure that researchers have access to the necessary equipment and installations to undertake research and development projects in genomics and to allow for the training of researchers and technologists;

(d) to raise the awareness of the population to the necessity of research in genomics, to the usefulness and consequences of the outcome from this research, to ensure an ethical environment for the researchers and to contribute to public awareness regarding the stakes involved in genomics research.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Cash and cash equivalents:

Cash and cash equivalents consist of cash as well as all highly liquid short-term investments which have a maturity of less than three months from the date of acquisition.

(b) Short-term investments:

Short-term investments, redeemable at any time, are recorded at the lower of cost and market value. They consist of term deposits bearing interest at 2.85% and having maturity date in October 2003. As at March 31, 2003, market value approximates cost.

(c) Work in progress:

Work in progress is recorded at the pro rata billing value of the work completed.

(d) Inventories:

Inventories are represented by supplies which will be utilized by the technology platforms. The supplies are recorded at the lower of cost and replacement cost. The cost is determined using the first in, first out method.

(e) Advances and charges related to genomic research projects:

The advances represent the excess of the contributions to the research projects, including work performed by the technlogy platforms, over the claims received which are recognized in the statement of operations.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(f) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions which include mainly funding from Genome Canada and the *Ministère du Développement économique et régional et de la recherche du Québec*. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions and related investment income are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions related to the purchase of capital assets are deferred and amortized to revenues using the same methods and rates of the related capital assets.

Revenues from technology platforms are represented by sequencing, genotyping and biochip services. Revenues are recognized on the basis of the services rendered.

(g) Long-term investments:

Long-term investments are accounted for by using the equity method.

(h) Capital assets:

Capital assets are stated at cost. Depreciation is provided for using the following methods, period and annual rates:

Asset	Method	Period/rate
Leasehold improvements	Straight-line	Remaining lease term
Furniture and fixture	Declining balance	20%
Equipment - technology platforms and research projects	Declining balance	30%
Computers and software	Declining balance	30%

(i) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Significant areas requiring the use of management's estimates relate to the determination of the useful life and the estimated residual value of the capital assets along with the recoverability of long-term investments. Accordingly, actual results could differ from those estimates.

2. NEW ACCOUNTING STANDARDS:

Guarantees:

In February 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 14 ("AcG-14"), *Disclosure of Guarantees,* which requires certain disclosures to be made by a guarantor in its financial statements for years beginning on or after January 1, 2003, about its obligations under guarantees.

A guarantee is a contract or indemnification agreement that contingently requires the Corporation to make payments to the other party of the contract or agreement, based on changes in an underlying that is related to an asset, a liability or an equity security of the other party or based on a third party failure to perform under an obligating agreement. It could also be an indirect guarantee of the indebtedness of another party, even though the payment to the other party may not be based on changes in an underlying that is related to an asset, a liability or an equity security of the other party.

In the normal course of business, the Corporation did not enter into agreements that could include elements that meet the AcG-14 definition of a "guarantee".

3. CASH AND CASH EQUIVALENTS:

	2004	2003
Cash	$ 18,425,781	$ 1,497,315
Guaranteed investment certificates, maturing on April 9, 2003, bearing interest at 2.85%	-	5,700,000
	$ 18,425,781	$ 7,197,315

4. ACCOUNTS RECEIVABLE:

	2004	2003
Clients	$ 1,248,772	$ 630,294
Work in progress	97,498	223,123
Sales taxes	-	100,989
Accrued interest receivable	33,834	21,059
	$ 1,380,104	$ 975,465

5. LONG-TERM INVESTMENTS:

	2004	2003
Investment in a subsidiary (63%)	$ 4,295,000	$ 1,718,000
Investment in a significantly influenced company (40%)	3,712,827	800
Advance to a significantly influenced company	-	1,388,162
	8,007,827	3,106,962
Less operating losses of these entities	(7,065,935)	(2,006,832)
	$ 941,892	$ 1,100,130

5. LONG-TERM INVESTMENTS (CONTINUED):

The activities of the subsidiary are mainly represented by research and development expenses for the project hereunder, which is financed by the Corporation's investment. The Corporation is committed to subscribe to the capital stock of the subsidiary, an amount of $6.2 million in connection with the project on the integrative genomics for women's health program as part of a total of $10.2 million over a three-year period.

In connection with the research projects conducted by the significantly influenced company, the Corporation is committed to subscribe to the capital stock of that company, $8.4 million as part of a total of $14.3 million over a three-year period.

The financial commitments related to these projects are disclosed in the commitments mentioned in note 12 in connection with competition II.

6. CAPITAL ASSETS:

			2004	2003
	Cost	Accumulated depreciation	Net book value	Net book value
Leasehold improvements	$ 25,971	$ 8,985	$ 16,986	$ 21,232
Furniture and fixtures	158,727	59,990	98,737	124,078
Equipment — technology platforms	2,577,563	697,323	1,880,240	794,440
Equipment — research projects	6,922,432	2,559,773	4,362,659	3,701,209
Computer and software	107,952	52,565	55,387	63,034
Deposit on acquisition of equipment — technology platforms	-	-	-	766,150
	$ 9,792,645	$ 3,378,636	$ 6,414,009	$ 5,470,143

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	2004	2003
Accounts payable	$ 1,033,013	$ 1,125,800
Accrued liabilities	1,743,107	730,823
Salaries and fringe benefits	548,279	488,654
Deferred revenues	44,520	30,515
Sales taxes	19,910	-
	$ 3,388,829	$ 2,375,792

8. DEFERRED CONTRIBUTIONS RELATED TO FUTURE EXPENSES:

The Corporation receives grants from Genome Canada and the *Ministère du Développement économique et régional et de la recherche du Québec* and/or from *Valorisation-Recherche Québec*. These grants will be administered and distributed in accordance with the terms and conditions of the related agreements.

Deferred contributions related to expenses of future periods represent these unspent externally restricted funding and related investment income for the purposes of providing contributions to eligible recipients and to pay operating and capital expenditures in future periods.

The deferred contributions are:

	March 31, 2002	2003 Transactions	March 31, 2003	2004 Transactions	March 31, 2004
Contributions:					
Genome Canada	$ 12,300,000	$ 9,669,724	$ 21,969,724	$ 36,742,432	$ 58,712,156
Government of Quebec	10,040,000	10,000,000	20,040,000	20,891,000	40,931,000
VRQ	-	-	-	839,189	839,189
Genome Prairies	-	416,331	416,331	306,764	723,095
FQRNT	-	500,000	500,000	-	500,000
FRSQ	-	439,000	439,000	-	439,000
MSSS	-	-	-	100,000	100,000
	22,340,000	21,025,055	43,365,055	58,879,385	102,244,440
Investment income:					
Interest received	477,496	280,780	758,276	364,250	1,122,526
Interest receivable	64,298	(43,239)	21,059	12,775	33,834
	541,794	237,541	779,335	377,025	1,156,360
Amount amortized to revenues	(6,524,463)	(20,489,026)	(27,013,489)	(44,756,670)	(71,770,159)
Amount invested in capital assets	(2,587,041)	(4,450,203)	(7,037,244)	(2,755,401)	(9,792,645)
	$ 13,770,290	$ (3,676,633)	$ 10,093,657	$ 11,744,339	$ 21,837,996

9. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS:

Deferred contributions related to capital assets represent the unamortized amount of contributions received for the purchase of capital assets. The amortization of such contributions is recorded as revenue in the statement of operations. The changes in balances of the deferred contributions are as follows:

	2004	2003
Opening balance	$ 5,470,143	$ 2,204,199
Add allocation of funding for capital asset purchases	2,755,401	4,450,203
Less amount amortized to revenues	(1,811,535)	(1,184,259)
Ending balance	$ 6,414,009	$ 5,470,143

10. SUPPLEMENTAL CASH FLOW INFORMATION:

	2004	2003
Non-cash transactions excluded from the change in deferred contributions:		
Interest receivable	$ 12,775	$ (43,239)
Amount transferred to deferred contributions related to capital assets	(2,755,401)	(4,450,203)
	(2,742,626)	(4,493,442)
Increase in advances to genomic research projects compensated by the reduction of fixed assets	683,105	-

11. FINANCIAL INSTRUMENTS:

The Corporation determined that the book value of its short-term financial assets and liabilities, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and accrued liabilities approximates their fair value due to the short term of these instruments.

The fair value of the long-term investments cannot be determined because these investments are in share capital of private companies and, accordingly, such shares are not negotiated on an organized capital market.

12. COMMITMENTS:

In accordance with an agreement entered into with Genome Canada with regard to a financial support commitment of $85,687,000 related to Competitions I and II, the Corporation has agreed, among other things, to obtain equivalent financing commitments from other parties. In this matter, financial commitments from the government of Quebec amounted to $70,710,000 and an amount of $14,977,000 is committed from other parties, of which $1,700,000 remain to be finalized.

The Corporation is committed to finance research projects in the amount of $143,614,000. As at March 31, 2004, the residual commitment for these projects amounts to $74,250,408.

The Corporation entered into various agreements for services. In addition, the Corporation rents certain premises for which terms and conditions remain to be finalized. These agreements expire at various dates until 2009. The payments under these agreements for the next years are: $1,360,921 in 2005, $1,043,082 in 2006 and $993,956 in 2007, $753,905 in 2008 and $18,431 in 2009.

Under the terms of a contract, the Corporation could be required to disburse an additional amount of one million dollars U.S. should conditions defined in the agreement not be fulfilled. Also, in connection with this agreement, the Corporation can be subject to pay royalties.

13. SUBSEQUENT EVENT:

As a result of the Applied Genomics and Proteomics Research in Human Health Competition, sponsored by Genome Canada, the Corporation has announed projects amounting to $42,000,000, shared among three projects and one collaborative project with Ontario Genomic Institute. The financial commitment will be confirmed once the agreements with the financial partners and research projects are signed.

14. COMPARATIVE FIGURES:

Certain comparative figures for 2003 have been reclassified in order to conform with the financial statement presentation adopted in 2004.

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ISBN 0-9733767-1-6