ANNUAL REPORT

ID BIOMEDICAL 2003

We're advancing vaccines from innovation to commercialization.

How close are we?

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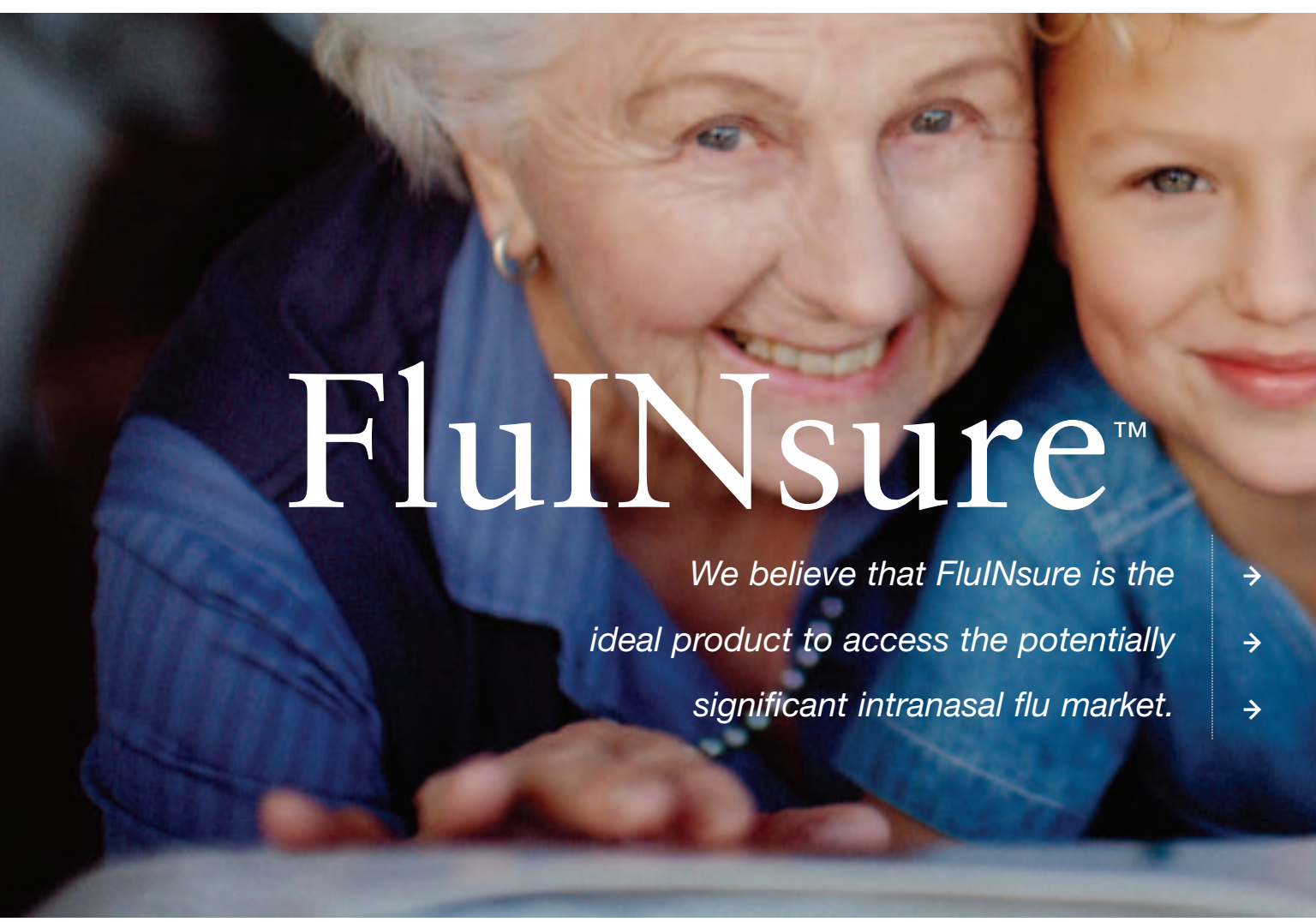
ID Biomedical is a biotechnology company focused on the development of proprietary subunit vaccine products, including those based on its Proteosome™ platform intranasal adjuvant/delivery technology. ID Biomedical is developing subunit vaccines for the prevention of a number of different diseases, as well as vaccines against biological warfare agents. The Company's lead products in clinical development are the FluINsure™ intranasal influenza (flu) vaccine and the StreptAvax™ group A streptococcal vaccine. Additionally, the Company has several vaccines in preclinical development.

Our subunit, nonliving intranasal flu vaccine – FluINsure – has successfully completed *five safety and immunogenicity studies* and *two protection studies* conducted in healthy adult subjects.



FluINsure™

We believe that FluINsure is the ideal product to access the potentially significant intranasal flu market.

We're meeting milestones.

FluINsure is the only subunit, nonliving intranasal flu vaccine in advanced clinical testing.

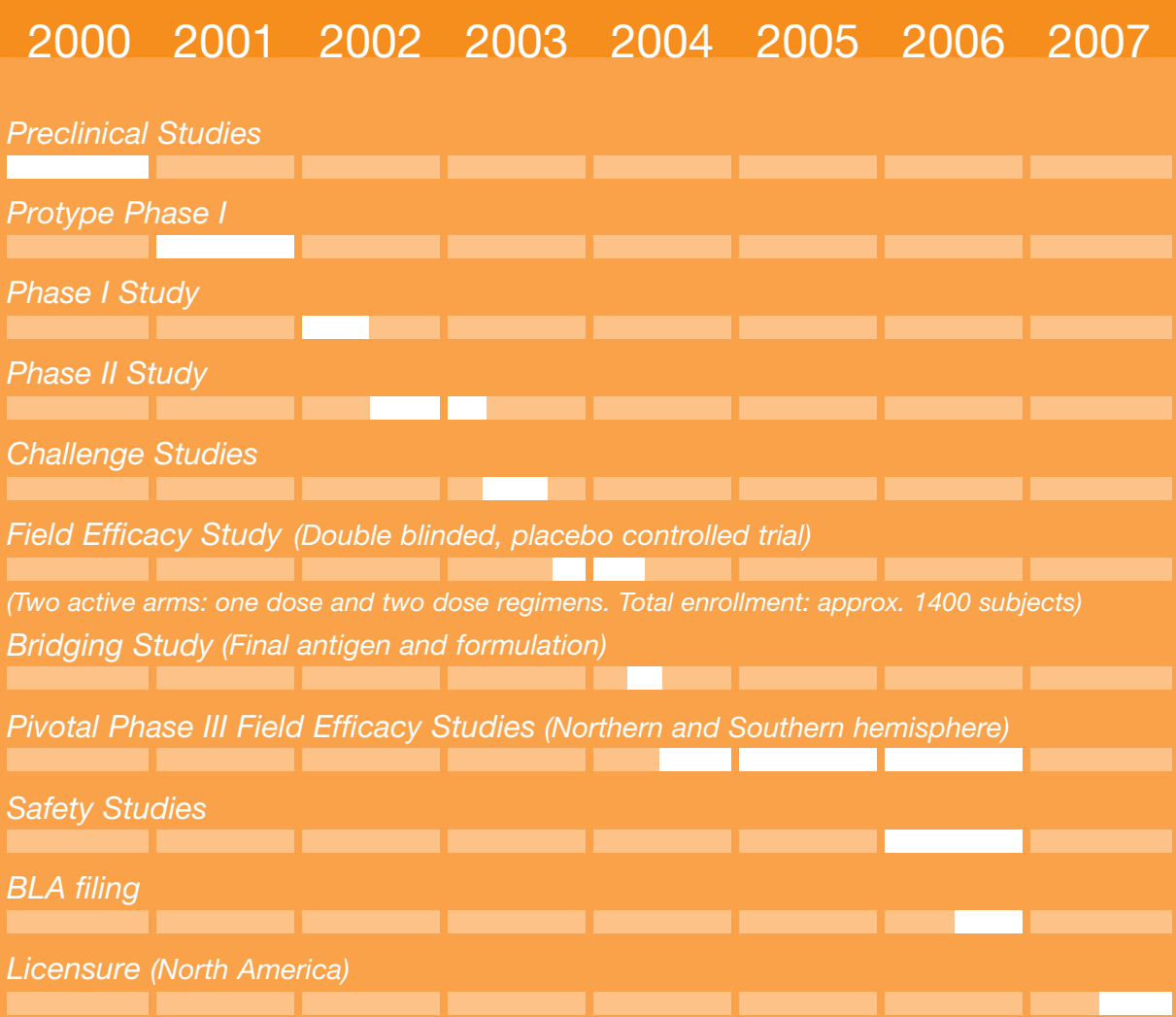
ID Biomedical achieved significant clinical milestones with the FluINsure™ intranasal influenza (flu) vaccine in 2003. In February, we reported positive results from a human challenge trial. A total of 75 healthy adult volunteers received the FluINsure™ vaccine or a placebo in this randomized, double-blind and concurrent placebo-controlled study. Influenza-like illness was observed in approximately half of placebo recipients who received the challenge virus, a level consistent with that anticipated. There was a statistically significant trend toward decreased illness in the active vaccine recipients ($p = 0.03$). Two-dose recipients demonstrated 86% protection against any illness (an overall 71.4% protective efficacy versus placebo) and 100% protection against fever and systemic symptoms. These levels of protection are similar to those observed in this model with other vaccines known to have field efficacy. Protection, as defined in this study, in the one-dose recipients was less, but several secondary endpoints suggested that disease was ameliorated in this group as well. The data strongly supported the two-dose regimen and were sufficiently encouraging for the Company to pursue further evaluation of the one-dose regimen.

In May of 2003, the Company initiated a second human challenge study of similar design, but including an additional treatment group that received two doses of vaccine at a reduced dose level. In addition, meetings the Company conducted with Health Canada and the US Food and Drug Administration resulted in a focus on febrile illness and laboratory confirmed influenza for this and future studies. The results of the second study were very encouraging. The one-dose group showed 75% vaccine efficacy against febrile illness, while both two-dose groups (which were indistinguishable) showed 100% efficacy. Considering both challenge trials together, there was statistically-significant ($p < 0.05$) efficacy of FluINsure against febrile illness, any systemic illness, and any clinical illness associated with laboratory confirmation of influenza virus infection. Again, the endpoints from this study are encouraging, since regulatory authorities (in North America and, we believe, worldwide) will consider prevention of febrile illnesses with confirmation of virus infection a primary outcome in field efficacy trials.

In October of 2003, the Company initiated a field trial that enrolled 1,349 healthy adult subjects at 28 sites in seven Canadian provinces. This randomized, double-blind, placebo-controlled field trial is evaluating one- and two-dose FluINsure regimens for efficacy in reducing influenza illness relative to a placebo. Additionally, the trial is designed to evaluate the performance of a variety of clinical endpoints and diagnostic methods for subsequent use in pivotal trials. Enrollment was completed on November 20, 2003 and subjects are now in follow-up. The efficacy period ended as of April 19, 2004; safety follow-up will continue into the month of May, 2004.

Disclaimer: The clinical development for the FluINsure vaccine or any vaccine product is subject to numerous uncertainties. Completion of clinical trials and regulatory approval, if any, will take several years, but the length of time generally varies substantially. The duration and the cost of clinical trials for the FluINsure vaccine may vary significantly from these projections as a result of unanticipated developments arising during the clinical trials. No assurance can be given that clinical trials will be completed, that all necessary regulatory approvals will be received or that any product will be successfully commercialized. Please review our public disclosure record for risks and uncertainties related to our business.

Projected FluINsure timetable



It's clear. Non-living subunit vaccines are more attractive to the market.

They're safer, have fewer side effects and are easily administered.

According to a variety of different estimates, influenza ("flu") accounts for approximately $5 billion in direct medical costs and about $12 billion in lost productivity of infected workers each year. According to the World Health Organization (WHO), influenza afflicts 70 - 150 million people and accounts for 125,000 deaths in North America and Europe annually. Relative to healthy adults, the mortality rate of flu is substantially higher for people over 65 years of age and for those with chronic illnesses. In addition, the burden of disease due to influenza in infants and pre-school age children is increasingly being recognized.

Because the influenza virus changes form over time (a phenomenon called "antigenic drift"), the WHO issues an annual recommendation in February regarding which influenza viruses are likely to infect the population in the coming year, and thus should be represented in the vaccine. In the United States, the US Centers for Disease Control (CDC) and Center for Biologics Evaluation and Research of FDA hold a joint meeting in late February to discuss the WHO recommendations, evaluate their own data, and select influenza vaccine strains for US manufacturers. In both the WHO and US recommendations (which are generally identical), the three strains that are most likely to cause influenza for the upcoming season are included in the flu vaccine for that particular year. Current vaccines have been shown to provide 70-90% protection against influenza infection in people under the age of 65. The CDC recommends influenza vaccines for elderly and high-risk individuals, and recently extended its recommendation to include those 50 and older. Health Canada recommends influenza vaccination for persons over 64 or with chronic illnesses, but also "encourages" the vaccine for the general population.

An international network of laboratories monitors the emergence and spread of new epidemic and pandemic strains of influenza. The network was established in 1947 and now includes three WHO Collaborating Centers and approximately 120 WHO National Laboratories. The network's objective is to detect the emergence and spread of antigenic drift variants of influenza. This information is used to signal the need to update the strains contained in the influenza vaccine.

The Company believes there are several potential advantages to our non-live, intranasally delivered flu vaccine, including:

- *Ease of administration – a needle-free vaccine delivery system;*
- *Increased immune response by generating antibodies both systemically in the blood, as well as in the mucosal systems;*
- *Liquid formulation which meets standard refridgeration requirements for vaccine products;*
- *Purified protein (non-living);*
- *No risk of infection and disease from the vaccine;*
- *No risk of cross-infection of personal contacts;*
- *No risk of lot to lot inconsistency caused by genetic instability;*
- *No risk of mutation to a more virulent form of influenza;*
- *Small volume of liquid sprayed in each nostril.*

How have we done?

ID Biomedical on December 31, 1998:

In 1998, ID Biomedical was a small diagnostic company that was not well known outside of Canada. Since then, the Company has been implementing various goals and objectives each year to build upon its business strategy.

$48

Market capitalization (millions)

30

Number of employees

0

Number of vaccines in clinical trials

$3.07

Share price

$4

Cash position (millions)

ID Biomedical on December 31, 2003:

In 2004, through the advancement of FluINsure and other vaccines and initiatives, the Company is correctly viewed as a rapidly growing vaccine company with great potential.

$650
Market capitalization (millions)

154
Number of employees

2
Number of vaccines in clinical trials

$15.45
Share price

$150
Cash position (millions)

And that's just the beginning.

Clinical trial results on FluINsure and StreptAvax reduced development risks. These unique products are ideally suited for the vaccine market.

2003 Milestones:

Established a vaccine manufacturing group headed by senior pharmaceutical industry executive.
Substantially expanded our QA, QC, clinical and regulatory groups to handle large-scale clinical trials.

To our Shareholders:

The fiscal year 2003 was highlighted by successfully advancing our two lead vaccine programs, FluINsure™ intranasal influenza (flu) vaccine and StreptAvax™ group A streptococcal vaccine, in clinical development. Each of these programs has, thus far, passed all of the development challenges that we have faced. For FluINsure, that meant we were able to begin our first field efficacy study in 2003. For StreptAvax, we continued to march toward eventual testing of the product in children, our target population for this vaccine.

Meeting these challenges is the cornerstone of the ID Biomedical strategy of reducing risk by advancing our products through clinical development, while looking to maximize the potential returns for our shareholders by maintaining all commercial rights to our products until such time as we enter late stage clinical development. We first articulated this business plan 5 years ago. Since then, we and members of our senior management team and, in fact, all of our employees have been successfully implementing various goals and objectives each year to build upon this strategy. How have we done? On December 31, 1998, ID Biomedical had about 30 employees; $4.1 million in cash; no vaccines in clinical trials; and a market capitalization of $47.9 million. We were a small diagnostic company that was not well known outside of Canada. Five years later, on December 31, 2003, ID Biomedical had 154 employees; over $150 million in cash; two promising vaccines in clinical trials; and a market capitalization of approximately $650 million. Our share price has increased in excess of 500% over the last 5 years, and we have a strong shareholder base not only in Canada, but in the United States and Europe as well. ID Biomedical is correctly viewed as a rapidly growing vaccine company with great potential.

What we have accomplished over the last five years is noteworthy, and while we are very proud of these accomplishments, we will not rest on our laurels. For example, in addition to committed and experienced employees, our business strategy requires adequate financial resources to advance our programs in clinical development. Consequently, in 2003 it was strategically important for ID Biomedical to strengthen its balance sheet. This was accomplished by raising approximately $166 million through

2003 Milestones:

Successfully completed two FluINsure efficacy trials demonstrating protection against influenza disease in human challenge model.
Initiated first field efficacy study of FluINsure in 1,349 patient multi-centered, "in season" clinical trial.

The acquisition of Shire's vaccine assets and business, if completed, will present the Company with a number of important opportunities.

two equity offerings. As a result of these financings and the prudent management of our assets, the Company's year end cash position was $156 million.

This strong cash position allows us to advance our development programs and enter into strategic alliances on our own timetable. Further, our strong balance sheet also recently provided ID Biomedical with the opportunity to pursue a strategically important and significant acquisition. Again, building on the strategy of seeking to minimize risk and increase potential rewards, in late 2003 we submitted a proposal to purchase the vaccine assets of Shire Pharmaceuticals Group plc. Our proposal was accepted by Shire senior management and we signed a non-binding Letter of Intent outlining the terms of the transaction in early 2004. On April 19, 2004, ID Biomedical and Shire Pharmaceuticals Group plc signed an Asset Purchase Agreement. The transaction, which is subject to a number of conditions of closing, is anticipated to be completed by approximately June 30, 2004.

Under the terms of the Agreement, upon closing, ID Biomedical will acquire Shire's vaccine assets for a cash payment of US$60 million (payable $30 million on closing and $30 million on the first anniversary of closing) and subscription receipts allowing Shire to acquire common shares of ID Biomedical representing additional consideration of approximately US$60 million. The subscription receipts will have an exercise period of 18 months commencing 120 days after closing. As part of the agreement, Shire will provide ID Biomedical with a loan of US$100 million to finance the expected increase in our cash burn that will result from the acquisition. ID Biomedical will repay the loan on a percentage of the sales of products that are developed from our use of the funds.

Shire's vaccine assets include a 120,000 sq. ft manufacturing and fill/finish plant and underlying land in St. Foy, Quebec. This facility, which is currently being expanded to 200,000 sq. ft., produces Fluviral®, a nonliving, intramuscular influenza vaccine. With the expansion, the capacity of the St. Foy facility is expected to increase from 18 million to approximately 44 – 50 million doses of Fluviral

2003 Milestones:

- Raised US$126,246,000 in two equity offerings.
- Announced positive preliminary data from Phase II Clinical Trials of StreptAvax.

production per year. Also included in the assets proposed to be acquired is a 68,000 sq. ft. Vaccine Research Centre currently under construction in Laval, Quebec, as well as a 60,000 sq. ft. fully integrated vaccine development and pilot scale manufacturing facility in Northborough, Massachusetts. The assets also include an egg processing facility in Laval, Quebec that produces the starting material for Fluviral®.

Shire's vaccine business generated sales of approximately $36 million in 2003. These revenues largely came from sales of Fluviral® to the Canadian government. In 2001, Shire's vaccine subsidiary entered into a contract worth up to $300 million with the Canadian Government to supply public flu vaccine over the next several years, as well as guaranteeing to supply the entire population of Canada in the event of a flu pandemic. Shire's vaccine unit also has a $80 million funding agreement with Technology Partnerships Canada to develop a pipeline portfolio of protein-based or subunit vaccines.

As previously mentioned, Shire's vaccine assets also include pipeline products in early stage development. These products include subunit vaccines against S. pneumonia, N. meningitides and group B streptococcus, all of which address potentially large markets.

The acquisition of Shire's vaccine assets and business, if completed, will present your company with a number of important opportunities. First, ID Biomedical obtains an antigen supply for our nonliving, intranasal, FluINsure vaccine. We believe the ability to control the entire product will be substantially beneficial to our shareholders, not only in our ultimate marketing partnership opportunities for FluINsure, but also in the cost of manufacturing. Next, ID Biomedical acquires the marketed intramuscular subunit, nonliving flu vaccine, Fluviral®, with 2003 sales of about $30 million. Importantly, all of Fluviral sales have occurred in Canada. We will begin an aggressive program to get Fluviral licensed in the US and other important international markets. While we can give no assurances of receiving the necessary approvals, with appropriate clinical and regulatory action, we believe Fluviral could be approved for sale in the United States by the 2007 flu season.

With the Shire vaccine assets, we believe ID Biomedical also acquires an attractive portfolio of early stage pipeline programs which, together with our own existing pipeline, will create one of the most attractive portfolios in the vaccine industry today. This acquisition also means that ID Biomedical obtains the infrastructure necessary to fully develop, manufacture and fill/finish its own vaccine products. This is important as we take the next step in creating a world-class vaccine company.

Equally important, we believe we have structured the agreement so as to minimize the short term financial impact to ID Biomedical as a result of the US$100 million loan agreement and the significant impact the other assets will have on our balance sheet, post-closing. In addition, with proper execution and management of the combined assets, we believe we have significantly enhanced the potential for the long term financial strength of ID Biomedical.

As was the case when we acquired Intellivax in 2001, we believe this acquisition will fit very well within our overall corporate development strategy. The acquisition will allow greater control of our FluINsure program because we will own the bulk antigen supply, a most critical component to our intranasal flu

2004 Goals:

- Complete Phase II Clinical Trial of StreptAvax in healthy adult subjects.
- Obtain approval to initiate Phase II Clinical Trial of StreptAvax in healthy children.
- Acquire long term influenza antigen supply.

...the Shire vaccine assets, if acquired, together with our own existing pipeline, will create one of the most attractive portfolios in the vaccine industry today.

vaccine. This also ensures that the manufacturing cost of FluINsure will be significantly lower than if we were to have purchased bulk antigen from a third party. Additionally, the acquisition would put ID Biomedical in the position to become one of the world's leading flu vaccine manufacturers because we expect to be able to develop products that address the traditional intramuscular market, as well as the premium priced, intranasal market. Multiple product offerings should greatly assist our ability to capture market share.

Additional achievements in 2003 include:

StreptAvax

We saw encouraging progress in 2003 from our StreptAvax vaccine, a nonliving, subunit injectable vaccine against diseases caused by group A streptococcus.

In May 2003, ID Biomedical announced preliminary results from our Phase II Clinical Trial in healthy adult volunteers. These results indicated that the immune response to StreptAvax was highly significant. StreptAvax induced a broad immune response against the 26 serotypes of group A streptococcus targeted by the vaccine. Additional data demonstrated that blood taken from subjects vaccinated with StreptAvax, was able to significantly increase killing of group A streptococci to all serotypes included in the vaccine. The ability to kill group A streptococcal bacteria is an important efficacy marker for the protection against future group A streptococcal disease. Importantly, StreptAvax continues to be safe and well tolerated by study subjects. We expect additional data from this study by the end of the third quarter of this year, and hope by year end that the regulators will provide approval to begin studies in preschool aged children.

FluINsure

The FluINsure program was extremely active in 2003. During the last year we completed two human

2004 Goals: Successfully complete FluINsure field efficacy trial.

protection trials with FluINsure, our subunit, nonliving, intranasally delivered flu vaccine. These human clinical trials made use of a challenge model where volunteers were vaccinated with either active vaccine or placebo and then given live influenza virus intranasally to see if they developed the flu or flu-like symptoms. Results from these studies showed that FluINsure, whether delivered as single dose or two doses 14 days apart, provided statistically significant protection from fever, a hallmark sign of influenza. These encouraging results allowed the Company to begin a large scale, multi-centered field efficacy clinical trial in November 2003. This field study enrolled 1349 volunteers aged between 18 – 64 years with a protocol of testing placebo versus one and two dose regimens of FluINsure. This study was completed in April 2004, with results available in the late summer. Moving forward, we expect to carry out a bridging study using the newly acquired antigen source, and then advance to pivotal safety and efficacy studies in anticipation of licensure in North America.

Biodefense

We continued to expand our expertise in Biodefense, particularly via our relationship with Dynport Vaccine Corporation, our partner in a program to develop an injectable plague vaccine. During the year, we announced an extension of our agreement with Dynport, bringing the potential total funding to ID Biomedical from this program to up to US$10 million. We are excited about the potential of the Dynport injectable plague vaccine, and our role as a contract manufacturer utilizing our proprietary ID-CX5 technology.

We are also exploring intranasal vaccine programs in plague, anthrax and pandemic flu based on our Proteosome technology.

Business Development

ID Biomedical is focused on the clinical development of vaccine products, such as FluINsure and StreptAvax, because we believe they address large markets and can achieve premium pricing. By advancing these vaccines in clinical development, as well as our pipeline products, their value should increase as the clinical and regulatory risks begin to decrease and the likelihood and timing of market launch becomes more predictable.

In 2003, with positive data from our first efficacy trials of FluINsure, we began active discussions with manufacturing and distribution/marketing partners. Through discussions with potential partners, it became clear that having our own supply of bulk influenza antigen for the production of FluINsure would be financially more beneficial to our shareholders than, in effect, purchasing this key material from a distribution/marketing partner. The issue for ID Biomedical was that existing suppliers of the intramuscular flu vaccine were not willing to supply us with significant bulk antigen supplies without receiving broad marketing rights to the FluINsure vaccine. This was no surprise, and our partnering strategy was developed with this expectation. It was clear, however, that if we could acquire our own antigen source without giving up any marketing rights, then the ultimate economics related to our FluINsure vaccine had the potential to be substantially more beneficial to ID Biomedical.

In the third quarter of 2003, we learned that Shire Pharmaceuticals wanted to divest its vaccine assets. We saw this as a tremendous opportunity to acquire our own antigen supply for FluINsure, as well as an opportunity to significantly grow and diversify our business with an injectable flu vaccine product.

2004 Goals: Sign U.S. marketing/distribution or co-development agreement for FluINsure.

Consequently, to better position the Company for any strategic acquisition related to FluINsure or any of our programs, in October 2003, we announced the closing of a US$100 million financing. These funds, in combination with our existing financial resources, made it possible for ID Biomedical to pursue the Shire opportunity, as well as any other antigen sources that may have been possible, such as paying for a current manufacturer to increase their antigen capacity and then acquiring that capacity on an annual basis.

There is no question that the Shire sale was a competitive bidding situation and we would not have been successful in entering into an agreement to acquire these assets without the strong balance sheet and cash position that we had toward the end of 2003.

ID Biomedical's business development strategy is to be able to accomplish our product and manufacturing development goals while maintaining a strong cash position, so that we can partner our programs on commercially attractive terms. When necessary, we will also grow our business through acquisition. This strategy, which allowed us to purchase Intellivax in 2001 and, with successful completion of the transaction, the Shire Pharmaceutical vaccine assets in 2004, is integral to the rapid growth ID Biomedical has experienced over the last several years.

Although we are clearly going to increase our burn rate if the Shire acquisition is completed, just as we did with the Intellivax acquisition, we are putting plans in place to ensure we can do this while maintaining the Company's strong financial position. As an example, this is the principal reason we structured the transaction with a US$100 million loan agreement from Shire.

Conclusion

In summary, 2003 was a highly successful year in terms of meeting our clinical development milestones on our lead programs, FluINsure vaccine and StreptAvax vaccine. It was also a year when your company seized the opportunity to strengthen its cash position and build upon our past successes. As we look to 2004, with the closing of the acquisition of Shire's vaccine business, we expect to grow our asset base, improve our financial strength, grow revenues, and diversify our product portfolio.

In conclusion, we would like to thank our shareholders, employees, directors and our many partners for their support. We continued to make tremendous progress in 2003 and, as a result, the company has experienced significant growth. We believe we have tremendous potential for long term rewards. At ID Biomedical, it is our mission to deliver on the potential offered by these innovative vaccine products and continue to aggressively grow our business.

Todd R. Patrick
President and Director

Anthony F. Holler MD
CEO and Director

Dr. Richard Bastiani
Chairman

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Financial Review

Management's Discussion & Analysis

The following information should be read in conjunction with the audited financial statements for the year ended December 31, 2003 and related notes prepared in accordance with Canadian generally accepted accounting principles.

OVERVIEW

ID Biomedical Corporation ('the Company') is a biotechnology company focused on the development of proprietary subunit vaccines including those based on its Proteosome™ protein intranasal adjuvant/delivery technology.

The Company is developing subunit vaccines for the prevention of a number of different diseases. Subunit vaccines differ from traditional vaccines in that they consist of proteins or other components of the organism rather than the whole, live organism. The Company's product candidates in clinical development are:

StreptAvax™ vaccine, a multivalent subunit vaccine against group A streptococcus. A prototype formulation of this vaccine has been tested in human clinical trials in the United States in collaboration with the University of Tennessee and the United States National Institutes of Health, and a more advanced formulation is currently being tested in human clinical trials with Dalhousie University in Canada; and

FluINsure™ vaccine, an intranasally delivered subunit influenza ("flu") vaccine, which has been tested in a Phase I Clinical Trial at the University of Rochester, two Phase II Clinical Trials in Canada, Phase II challenge trials in the United Kingdom, and is currently being tested in a 1360 person field efficacy trial in Canada.

The Company also has pre-clinical research programs that include the possible development of an allergy vaccine, a vaccine against respiratory syncitial virus (RSV) and vaccines against biological warfare agents. All of the Company's pre-clinical research programs are based on a potential platform vaccine technology for the intranasal delivery of vaccine antigens. This proprietary platform is trademarked Proteosome™ technology.

In addition to the Company's main business, the Company also owns and licenses rights to a proprietary genomics analysis system, Cycling Probe™ Technology (CPT). The Company is licensing CPT and its patents in signal amplification to other parties in the genomics and diagnostic industry for further product and technology development. Currently, the Company has licensing arrangements in place with Applied Biosystems, Mitsubishi Chemical Corporation, Apogent Inc., and Takara Biomedical Group ("Takara").

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). A reconciliation of amounts presented in accordance with United States generally accepted accounting principles ("U.S. GAAP") is described in Note 21 to our consolidated financial statements for the year ended December 31, 2003. These accounting principles require us to make certain estimates and assumptions. We believe that the estimates and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates and assumptions are made. Actual results could differ from our estimates. Areas of significant estimates include valuation and amortization of medical technology and recognition of deferred revenue.

The significant accounting polices that we believe are the most critical in fully understanding and evaluating our reported financial results include the following:

- Revenue recognition
- Medical technology

Revenue recognition

Our revenue to date has been derived from several sources including licensing fees which are comprised of initial fees and milestone payments from our CPT partnering arrangements. Non-refundable milestone payments are fully recognized upon the achievement of the milestone event when the Company has no further involvement or obligation to perform under the arrangement. Initial fees and milestone payments which require ongoing involvement or licensing are deferred and amortized into income over the estimated period of our ongoing involvement or licensing. If we determine that a company

Management's Discussion & Analysis (continued)

used our technology prior to signing a license, then a portion of the initial fee may be recognized upon signing the agreement to account for such prior use. Changes in our contractual arrangements or the nature or extent of our ongoing involvement on existing contracts in the future may impact the extent and timing of our revenue recognition.

Revenue from the Company's research and development contracts is recorded at the time the research and development activities are performed in accordance with the terms of the specific contracts.

Medical technology
The Company capitalizes the cost of acquiring medical technology. Costs are amortized over the estimated useful life of the technology once use of the related product commences or once the Company enters into a licensing agreement with respect to the technology. We determine the estimated useful lives for medical technology based on a number of factors such as legal, regulatory or contractual limitations; known technological advances; anticipated demand; and the existence or absence of competition. We review the carrying value of our intangible assets on an annual basis to determine if there has been a change in any of these factors. A significant change in these factors may warrant a revision of the expected remaining useful life of the intangible asset, resulting in accelerated amortization or an impairment charge, which would impact earnings.

CHANGES IN ACCOUNTING POLICIES

During the year the Company adopted the revised recommendations contained in the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 - Stock Based Compensation. Under the new pronouncements, the Company has chosen to prospectively adopt the fair value method of accounting for all employee and non-employee stock-based compensation granted, modified or settled on or after January 1, 2003. No retroactive restatement is required and adoption of the recommendation has no effect on the prior period consolidated financial statements. Prior to the adoption of the fair value method, the Company had used the settlement method for the recording of stock-based compensation. No compensation expense was recognized for the plan when stock or stock options were issued to employees. The adoption of this accounting policy resulted in the recognition of $1.7 million in compensation expense for the year ended December 31, 2003. The Company has disclosed the pro forma effects to the loss for the year and loss per share as if the fair value method had been used for all awards including those granted prior to January 1, 2003.

We use the Black-Scholes option pricing model to calculate the fair value of the stock options granted, modified or settled. Our current weighted average assumptions include: an expected life of 4.35 years, a risk free interest rate of 3.82% and annualized volatility of 84.92%. A change in any of these assumptions could impact earnings.

RESULTS FROM OPERATIONS

The Company recorded a net loss of $31.9 million ($0.89 per share) for the year ended December 31, 2003 compared to net loss of $14.5 million ($0.46 per share) for the year ended December 31, 2002. Provided below is selected financial information for each of the eight most recently completed quarters.

Three Months Ending	December 31	September 30	June 30	March 31
2003				
Total revenue	1,511,961	2,084,245	1,856,304	1,386,150
Income from operations	(13,944,039)	(7,667,974)	(6,147,495)	(5,690,261)
Net income/loss	(13,053,540)	(8,662,353)	(5,880,030)	(4,327,506)
2002				
Total revenue	658,004	657,038	814,726	8,754,759
Income from operations	(4,829,196)	(4,531,098)	(4,570,024)	3,596,215
Net income/loss	(4,649,139)	(4,677,128)	(5,585,626)	425,017

Management's Discussion & Analysis (continued)

REVENUES

For the year ended December 31, 2003, the Company's revenues totaled $6.8 million compared to $10.9 million in 2002. The decrease in revenue over the comparable period is attributable to genomic licensing revenues recognized in January 2002 as a result of the Company's agreement with Takara.

Deferred licensing revenue in the amount of $2.7 million was recognized for the year ended December 31, 2003, compared to $2.6 million in 2002. Based on the Company's current licensing agreements, amortization of deferred licensing revenue is expected to continue at the present amount through October 2006. The amortization of deferred licensing revenue does not result in additional cash to the Company.

Research and development contract revenue in the amount of $4.1 million was recorded for the year ended December 31, compared to nil in 2002. Research and development contract revenue increased as a result of agreements executed during 2003 with Dynport Vaccine Company for the development of an antigen for a subunit plague vaccine.

We may receive licensing fees and research and development contract revenue in the future from existing and new agreements. The extent and timing of such additional licensing fees and contract revenue, if any, will be dependent upon the overall structure and, terms and conditions of current and any future agreements.

EXPENDITURES

Research and development
Research and development expenditures consist primarily of cost associated with clinical development programs, research and development contracts, and other research programs including gene-based testing (CPT); accordingly, we track expenditures by these segments.

For the years ending December 31, 2003 and 2002 approximately 86% and 83% of our net research and development expenditures were spent on clinical development programs, approximately 11% and nil were spent on activities relate to research and development contracts, and approximately 3% and 17% were spent on other research programs including gene-based testing.

Net research and development expenses increased $16.9 million, or 136%, to $29.3 million for the year ended December 31, 2003 compared to the year ended December 31, 2002. Significant changes for the year ended December 31, 2003 compared to 2002 include an increase in external contracts of $9.8 million in support of human clinical trials of the Company's FluINsure™ vaccine and StreptAvax™ vaccine product candidates. In addition, employee related expenses increased $4.9 million; $1.2 million of this increase is attributable to stock option compensation expense, and the remaining is a result of personnel growth to support the development, clinical testing and manufacturing for the Company's FluINsure™ vaccine and StreptAvax™ vaccine product candidates.

Research and development costs are reported net of grants received or receivable from Technology Partnerships Canada ("TPC") and provincial government investment tax credits. TPC grants totaled $1.8 million for the year ended December 31, 2003 compared to $2.0 million in 2002. During 2003, the Company attained its total allowable funding under the TPC agreement. Provincial government investment tax credits totaled $0.6 million for the year ended December 31, 2003 as compared to $0.8 million in 2002.

In the future we expect increases in expenses related to the development, manufacturing and clinical trial related expenses associated with the continued advancement of the Company's FluINsure™ vaccine and StreptAvax™ vaccine product candidates.

General and administrative
General and administrative expenses increased $1.9 million, or 40% to $6.7 million for the year ended December 31, 2003 compared to the year ended December 31, 2002. This increase is attributable to stock option compensation expense of $0.5 million and other increases associated with continued development of our finance, human resources and business development activities.

Management's Discussion & Analysis (continued)

For 2004, a moderate increase in general and administrative expenses is expected to support the continued advancement of the Company's vaccine products and business development activities.

Depreciation and amortization
Depreciation and amortization expense relates to facilities and equipment, patent and trademark rights, and medical technology and other assets. Depreciation and amortization expense increased $0.3 million, or 8%, to $4.3 million for the year ended December 31, 2003 compared to the year ended December 31, 2002.

We believe that depreciation and amortization expense will increase in 2004 due to capital asset additions necessary to support the Company's vaccine product candidates.

Investment and other income
Investment and other income increased $0.9 million, or 170%, to $1.5 million for the year ended December 31, 2003 compared to the year ended December 31, 2002. This increase is a result of greater interest income from significantly higher levels of cash and short term investments resulting from the Company's 2003 financing activities. In addition the Company recognized a foreign exchange loss of $0.1 million for the year ended December 31, 2003 as compared to a loss of $0.2 million in 2002.

The Company expects investment and other income will continue to fluctuate in relation to cash balances, interest rates, and foreign exchange rates.

Gain on sale (loss on write-down) of short term investment
In January of 2003, the Company sold its investment in Third Wave Technologies Inc. for $2.5 million resulting in a gain of $1.7 million. The Company recognized a $3.8 million loss on write down on this investment in 2002.

Loss on disposal of medical technology and other assets
For the year ended December 31, 2003 the Company recorded a $1.6 million loss from the disposal of medical technology and other assets.This amount represents the unamortized portion of medical technology and patent rights, less the termination of an obligation classified as a long-term debt, related to research programs targeting possible vaccines against Mycobacterium tuberculosis and against E.coli, which the Company is no longer pursuing. The Company did not record any loss on disposal of medical technology and other assets in 2002.

Income taxes
For the year ended December 31, 2003 the Company recorded income taxes in the amount of $0.02 million compared to $0.8 million in 2002. Income tax amounts represent foreign withholding taxes on licensing payments received from Takara.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has financed its technology acquisitions, research and development activities and capital expenditures from the licensing of the Company's technologies, private and public equity financing, and leasing transactions. The Company has also received proceeds from contract revenue related to collaborative research and development agreements with corporate partners, and grants from government agencies.

We expect future funding to be provided though public equity financing and contract revenue from collaborative research and development agreements.

The Company's primary objective for the investment of funds is to preserve the Company's cash for the continued advancement of the Company's FluINsure™ vaccine and StreptAvax™ vaccine product candidates, research, and other operating expenditures by investing in low risk, readily marketable securities. The Company had cash and short-term investments of $156.2 million at December 31, 2003 as compared to $23.8 million at December 31, 2002. The Company's working capital increased to $149.0 million at December 31, 2003 compared to $20.7 million at December 31, 2002. This increase is the result of the Company's May 2003 equity and October 2003 unit offerings less the funding of the Company's research, development and manufacturing activities. Also impacting the Company's liquidity and capital resources are the exercise of stock options, debt repayment and additions of facilities and equipment, patent and trademark rights, and medical technology and other assets.

Management's Discussion & Analysis (continued)

Cash used in operating activities was $22.9 million for the year ended December 31, 2003 compared to $7.2 million in 2002. The increase in cash used in operating activities results from increases in net research and development expenses associated with the development, manufacturing, and clinical trial expenses of the Company's FluINsure™ vaccine and StreptAvax™ vaccine product candidates, changes in non-cash working capital items and a one-time initial licensing payment received from Takara in early 2002.

Additions to facilities and equipment were $5.3 million for the year ended December 31, 2003 compared to $1.7 million in 2002. This increase is associated with facility expansion to support the clinical and manufacturing development of the Company's vaccine product candidates.

Patent and trademark rights added during the year ended December 31, 2003 totaled $0.3 million compared to $0.4 million in 2002.

Additions to medical technology were $0.01 million for the year ended December 31, 2003 compared to $0.6 million for the same period in 2002.

Proceeds from the issuance of common shares and stock purchase warrants, net of issue costs, was $160.1 million for the year ended December 31, 2003 compared to $6.0 million in 2002. This increase is the result of the Company's equity and unit offerings that were completed on May 28 and October 28, 2003, respectively, and the exercise of stock options.

For the year ended December 31, 2003, the Company made debt payments, including payments of obligations under capital leases, totaling $1.1 million. Debt payments in 2002 totaled $2.4 million. Required additional principal payments on capital leases are $0.2 million. In addition the Company has entered into operating lease agreements for office and laboratory space and office equipment. The minimum annual commitments related to these agreements and the Company's capital leases are as follows:

(in thousands of dollars)	Payments due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Capital lease obligations	$ 245	$ 190	$ 55	–	–
Operating leases	$ 10,773	$ 1,089	$ 2,373	$ 2,428	$ 4,884

We have no relationships with any "special purpose" entities and have no commercial commitments with related parties. The only contractual obligations are in the form of operating leases, capital leases, and future research and development expenditures.

We expect that our available cash resources, working capital, expected interest income, expected licensing revenue, estimated funding from corporate partnerships and proceeds from our equity and unit offerings, should be sufficient to satisfy the funding of existing product development programs and other operating and capital requirements for at least the next 24 months. The amount of the expenditures that will be necessary to execute our business plan is subject to numerous uncertainties, which may adversely affect liquidity and capital resources to a significant extent. Our two lead product candidates, StreptAvax™ vaccine and FluINsure™ vaccine, are in human clinical trials. Completion of clinical trials may take several years or more, but the length of time generally varies substantially according to the type, complexity, novelty and intended use of a product. The duration and the cost of clinical trials may vary significantly over the life of a project as a result of unanticipated developments arising during the clinical trials and the duration and cost therefore cannot be estimated.

RISKS AND UNCERTAINTIES

The Company will require additional capital to fund its ongoing research and development, product development, and other operating activities. As a result, the Company intends to seek funds from a variety of sources, including corporate alliances, cooperative research and development agreements and other financing arrangements. In addition, the Company will likely issue securities if it determines that additional capital could be obtained under favorable conditions. However, there can be no assurance that these funds will be available on favorable terms, if at all.

Management's Discussion & Analysis (continued)

To the extent possible, management implements strategies to reduce or mitigate the risks and uncertainties associated with the Company's business. Operating risks include (i) the Company's ability to successfully complete pre-clinical and clinical development of its products, (ii) the Company's ability to obtain and enforce timely patent and other intellectual property protection and to avoid or license third party intellectual property covering its technology and products, (iii) decisions, and the timing of decisions, made by health regulatory agencies regarding approval of the Company's products, (iv) the Company's ability to complete and maintain corporate alliances relating to the development and commercialization of its technology and products, (v) market acceptance of the Company's technology and products, (vi) the competitive environment and impact of technological change, and (vii) the continued availability of capital to finance the Company's activities.

Forward-Looking Statements and Cautionary Factors That May Affect Future Results

The information in this annual report contains so-called "forward-looking" statements. These include statements about ID Biomedical's expectations, beliefs, intentions or strategies for the future, which may be indicated by words or phrases such as "anticipate", "expect", "intend", "plan", "will", "we believe", "ID Biomedical believes", "management believes", and similar language. All forward-looking statements are based on ID Biomedical's current expectations and are subject to risks and uncertainties and to assumptions made. Important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include: (i) the possibility that the transaction currently proposed between Shire Pharmaceuticals Group plc and ID Biomedical will take longer than expected to complete; (ii) the possibility that some or all of the conditions of closing for such transaction will not be satisfied or waived and that such transaction will, therefore, be terminated before it is completed; (iii) the possibility that the terms of such transaction will be altered prior to completion thereof, including as may be required to satisfy conditions of required regulatory consents; (iv) the ability to successfully complete preclinical and clinical development of its products; (v) the ability to obtain and enforce timely patent and intellectual property protection for its technology and products; (vi) the ability to avoid, either by product design, licensing arrangement or otherwise, infringement of third parties' intellectual property; (vii) decisions, and the timing of decisions, made by the health regulatory agencies regarding approval of its products for human testing; (viii) the ability to complete and maintain corporate alliances relating to the development and commercialization of its technology and products; (ix) market acceptance of its technology and product; and (x) the competitive environment and impact of technological change. There is no guarantee that the development path from Phase I to Phase II to Phase III and so on will be either linear or successful. ID Biomedical bases its forward-looking statements on information currently available to it, and assumes no obligation to update them.

Management's Responsibility for Financial Reporting

The consolidated financial statements contained in this annual report have been prepared by management in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors. The integrity and objectivity of these financial statements are the responsibility of management. In addition, management is responsible for all other information in this annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The financial statements include amounts, which are based on the best estimates and judgments of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control and, exercises this responsibility principally through the Audit Committee. The Audit Committee consists of six directors not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The Company's auditors, KPMG, LLP, have conducted an independent examination of the financial statements. Their examination includes a review of the Company's system of internal controls and appropriate tests and procedures to provide reasonable assurance that the financial statements are, in all material respects, presented fairly and in accordance with accounting principles generally accepted in Canada.

Anthony F. Holler
Chief Executive Officer
April 19th, 2004

Todd R. Patrick
President
April 19th, 2004

Auditors' report to the shareholders

We have audited the consolidated balance sheets of ID Biomedical Corporation as at December 31, 2003 and 2002 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 2003, 2002 and 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years ended December 31, 2003, 2002 and 2001 in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied, except for the changes in accounting policies as explained in note 3 to the consolidated financial statements, on a consistent basis.

Chartered Accountants
Vancouver, Canada
March 2, 2004, except for note 19,
which is as of April 19th, 2004

Consolidated Balance Sheets

December 31, 2003 and 2002 (expressed in Canadian dollars)

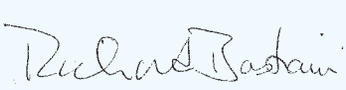
	2003	2002
Assets		
Current assets:		
Cash and cash equivalents (note 16)	**$ 149,087,649**	$ 5,511,422
Short-term investments (note 5)	**7,129,511**	18,300,499
Accounts receivable	**1,460,894**	423,390
Government assistance receivable (note 6)	**1,769,324**	2,025,548
Prepaid expenses and other	**628,628**	508,233
	160,076,006	26,769,092
Deposits	**–**	521,000
Facilities and equipment (note 7)	**8,050,339**	4,444,911
Investment (note 8)	**413,644**	413,644
Patent and trademark rights (note 9)	**1,394,094**	1,519,727
Medical technology and other assets (note 10)	**24,708,987**	28,807,301
Goodwill	**771,314**	771,314
	$ 195,414,384	$ 63,246,989
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 8,571,644**	$ 2,730,202
Current portion of deferred licensing revenue (note 11)	**2,308,220**	2,242,448
Current portion of long-term debt (note 12)	**–**	978,796
Current portion of obligations under capital leases (note 13)	**183,940**	144,894
	11,063,804	6,096,340
Deferred licensing revenue (note 11)	**3,460,206**	5,321,303
Long-term debt (note 12)	**–**	292,199
Obligations under capital leases (note 13)	**52,209**	254,367
Shareholders' equity:		
Share capital (note 14):		
Authorized: 200,000,000 common shares, without par value		
Issued and outstanding: 41,944,847 (2002 - 32,606,071) common shares	**277,026,716**	116,485,416
Contributed surplus	**3,651,078**	2,713,564
Deficit	**(99,839,629)**	(67,916,200)
	180,838,165	51,282,780
	$ 195,414,384	$ 63,246,989

Commitments (notes 10 and 17)

Subsequent events (note 19)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Dr. Richard Bastiani
Chairman

Anthony F. Holler MD
Director

Consolidated Statements of Operations

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

	2003	2002	2001
Revenue:			
Licensing	$ 2,697,210	$ 10,884,527	$ 2,538,437
Contract revenue	4,141,450	–	446,598
	6,838,660	10,884,527	2,985,035
Expenses and other:			
Research and development	31,568,420	15,214,726	8,459,063
Less government assistance	2,315,539	2,814,555	1,381,062
Net research and development	29,252,881	12,400,171	7,078,001
General and administrative	6,719,578	4,816,464	4,115,050
Depreciation and amortization	4,315,970	4,001,995	3,103,765
	40,288,429	21,218,630	14,296,816
	(33,449,769)	(10,334,103)	(11,311,781)
Other income (expenses):			
Investment and other income	1,489,572	551,663	1,714,636
Interest expense	(36,750)	(155,784)	(136,492)
Gain on sale of short-term investment (note 5)	1,684,979	–	–
Loss on disposal of medical technology and other assets (note 10(c), 10(e) and 10(g))	(1,591,131)	–	(434,306)
Loss on write-down of short-term investment (note 5)	–	(3,754,808)	(4,548,381)
	1,546,670	(3,358,929)	(3,404,543)
Loss before income taxes	(31,903,099)	(13,693,032)	(14,716,324)
Income taxes (note 15)	20,330	793,844	–
Loss for the year	$ (31,923,429)	$ (14,486,876)	$ (14,716,324)
Loss per share (note 14(g)):			
Basic	$ (0.89)	$ (0.46)	$ (0.51)
Diluted	(0.89)	(0.46)	(0.51)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

	Common shares				Total
	Number of shares	Share capital	Contributed surplus	Deficit	shareholders' equity
Balance, December 31, 2000	25,761,777	$ 79,942,610	$ 1,499,900	$ (38,713,000)	$ 42,729,510
Loss for the year	–	–	–	(14,716,324)	(14,716,324)
Shares issued under business acquisition (note 4(a))	4,000,000	24,482,100	–	–	24,482,100
Shares issued upon exercise of purchase warrants	992,071	5,888,748	–	–	5,888,748
Shares issued for directors fees	9,690	54,430	–	–	54,430
Shares issued for cash upon exercise of stock options and special rights	154,273	289,070	–	–	289,070
Contributed surplus on acquisition of additional shares in IDBW (note 4(b))	–	–	1,213,664	–	1,213,664
Shares repurchased and cancelled	(47,287)	(285,550)	–	–	(285,550)
Balance, December 31, 2001	30,870,524	110,371,408	2,713,564	(53,429,324)	59,655,648
Loss for the year	–	–	–	(14,486,876)	(14,486,876)
Shares issued upon exercise of purchase warrants	501,400	1,378,850	–	–	1,378,850
Shares issued for directors fees	19,073	111,836	–	–	111,836
Shares issued for cash upon exercise of stock options	1,215,074	4,623,322	–	–	4,623,322
Balance, December 31, 2002	32,606,071	116,485,416	2,713,564	(67,916,200)	51,282,780
Loss for the year	–	–	–	(31,923,429)	(31,923,429)
Shares issued for directors fees	6,283	80,426	–	–	80,426
Shares issued for cash upon exercise of stock options	513,544	2,975,921	–	–	2,975,921
Options exercised for which stock-based compensation has been recorded	–	23,024	(23,024)	–	–
Shares issued for cash pursuant to public offering (note 14(c))	8,800,000	166,874,888	–	–	166,874,888
Share issuance costs	–	(9,764,884)	–	–	(9,764,884)
Shares issued on settlement of share capital obligation (note 10(d))	18,949	351,925	(703,850)	–	(351,925)
Stock-based compensation	–	–	1,664,388	–	1,664,388
Balance, December 31, 2003	41,944,847	$277,026,716	$ 3,651,078	$ (99,839,629)	$180,838,165

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

	2003	2002	2001
Cash provided by (used in):			
Operations:			
Loss for the year	**$ (31,923,429)**	$ (14,486,876)	$ (14,716,324)
Items not affecting cash:			
Depreciation and amortization	**4,315,970**	4,001,995	3,103,765
Accrued interest on long-term debt	**14,020**	88,191	17,026
Loss on disposal of medical technology and other assets	**1,591,131**	–	434,306
Loss on write-down of short-term investment	**–**	3,754,808	4,548,381
Gain on sale of short-term investment	**(1,684,979)**	–	–
Directors fees paid in shares	**80,426**	111,836	54,430
Loss (gain) on disposal of facilities and equipment	**(15,438)**	(5,179)	892
Unrealized foreign exchange loss (gain)	**(66,992)**	(20,526)	13,669
Stock-based compensation expense	**1,664,388**	–	–
Net changes in non-cash working capital balances relating to operations:			
Accounts receivable	**(1,037,504)**	1,020,357	(1,080,899)
Government assistance receivable	**256,224**	235,200	(327,343)
Prepaid expenses and other	**(120,395)**	(47,673)	195,733
Accounts payable and accrued liabilities	**5,841,442**	21,685	58,525
Deferred licensing revenue	**(1,795,325)**	(1,862,247)	(1,754,361)
	(22,880,461)	(7,188,429)	(9,452,200)
Investments:			
Short-term investments, net	**12,855,967**	1,171,230	8,684,223
Proceeds from disposal of facilities and equipment	**51,399**	7,000	270
Facilities and equipment	**(5,271,099)**	(1,662,682)	(1,781,884)
Patent and trademark rights	**(327,071)**	(436,896)	(492,472)
Medical technology	**(11,923)**	(570,495)	(799,597)
Deposits	**521,000**	172,000	–
Cash obtained on acquisition	**–**	–	254,194
Cash paid on acquisition of Intellivax International Inc. (note 4(a))	**–**	–	(1,251,621)
	7,818,273	(1,319,843)	4,613,113
Financing:			
Proceeds on issuance of common shares	**169,850,809**	6,002,172	6,177,818
Share issuance costs	**(9,764,884)**	–	–
Settlement of share capital obligation (note 10(d))	**(351,925)**	–	–
Repayment of demand loan	**–**	(812,000)	–
Repayment of long-term debt	**(932,473)**	(1,348,562)	(51,684)
Repayment of obligations under capital leases	**(163,112)**	(257,857)	(308,946)
	158,638,415	3,583,753	5,817,188
Increase (decrease) in cash and cash equivalents	**143,576,227**	(4,924,519)	978,101
Cash and cash equivalents, beginning of year	**5,511,422**	10,435,941	9,457,840
Cash and cash equivalents, end of year (note 16)	**$ 149,087,649**	$ 5,511,422	$ 10,435,941

Continued on page 27

Consolidated Statements of Cash Flows (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

	2003	2002	2001
Supplementary information:			
Cash paid for:			
Interest	**$ 52,467**	$ 156,306	$ 119,466
Income taxes	**20,330**	793,844	–
Non-cash transactions:			
Facilities and equipment acquired by means of a capital lease	**–**	179,036	–
Issuance of common shares for acquisition of Intellivax International Inc. (note 4(a))	**–**	–	24,482,100
Issuance of debt on acquisition of shares (note 10(c))	**–**	–	285,550
Issuance of debt on acquisition of medical technology (note 4(b)(ii))	**–**	–	2,092,251
Acquisition of additional shares in IDBW (note 4(b)(i) and 4(b)(iii))	**–**	–	1,213,664
Issuance of shares on settlement of share capital obligation (note 10(d))	**351,925**	–	–

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 1. Operations:

ID Biomedical Corporation (the "Company"), was incorporated under the Company Act (British Columbia) on March 4, 1991. The primary business purpose of the Company is the development of proprietary subunit vaccines including those based on its Proteosome™ protein intranasal adjuvant / delivery technology. In addition to the Company's primary business, the Company owns and licenses rights to its proprietary genomics analysis system, Cycling Probe™ Technology.

Note 2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company, its wholly-owned Canadian subsidiary ID Biomedical Corporation of Quebec ("IDBQ", formerly Intellivax International Inc. ("IVX")), IDBQ's wholly-owned US subsidiary ID Biomedical Corporation of Maryland (formerly Intellivax Inc.), and the Company's wholly-owned US subsidiary (2002 and 2001 - 97%), ID Biomedical Corporation of Washington ("IDBW").

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada which, to these consolidated financial statements and except as disclosed in note 21, are not materially different from generally accepted accounting principles in the United States and from practices prescribed by the United States Securities and Exchange Commission.

All significant intercompany transactions and balances have been eliminated on consolidation.

(b) Cash equivalents:

Cash equivalents are highly liquid Canadian and US dollar investments in treasury bills, term deposits with major financial institutions and commercial paper, that are readily convertible to cash and with maturities at the date of purchase of three months or less. Investments with maturities at the date of purchase of more than three months and less than one year are separately classified in short-term investments on the consolidated balance sheet. The carrying value of cash equivalents approximates their market value.

(c) Short-term investments:

Short-term investments include US dollar marketable securities, and Canadian and US dollar investments in treasury bills, term deposits with major financial institutions, bonds and commercial paper with maturities at the date of purchase of more than three months and less than one year. Short-term investments are stated at the lower of cost and net realizable value.

(d) Long-term investment:

The investment is accounted for using the cost method. Under the cost method, the original cost of the shares is adjusted for dividends received in excess of the Company's pro rata share of post acquisition income or if an other than temporary decline in value occurs. The Company's management reviews the underlying value of the investment on a regular basis by reference to estimated fair value based on established criteria including trading value, anticipated cash flows and profitability of the investee.

(e) Facilities and equipment:

Facilities and equipment are stated at cost and are depreciated on a straight-line basis over their estimated useful life. Office furniture and equipment is depreciated over three years and laboratory equipment over five years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the lease term.

(f) Patent and trademark rights:

The costs incurred to obtain patents and trademark rights are capitalized. Costs are amortized over the lesser of the remaining legal life or estimated useful life of the patent or trademark once use of the related product commences or once the Company enters into a licensing agreement with respect to the technology. The cost of servicing the Company's patents and trademarks are expensed as incurred.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 2. Significant accounting policies continued:

(g) Medical technology:

The costs of acquiring medical technology are capitalized. Costs are amortized over the estimated useful life of the technology once use of the related product commences or once the Company enters into a licensing agreement with respect to the technology.

(h) Valuation of long-lived assets:

If management determines that the carrying value of facilities and equipment, patent and trademark rights or medical technology exceed the recoverable value based on future undiscounted cash flows, such assets are written down to their fair values.

(i) Leases and lease inducements:

Leases entered into are classified as either capital or operating leases. Leases, which substantially transfer all benefits and risks of ownership of the asset to the Company, are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation to reflect the purchase and financing.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Lease inducements represent free rent periods provided by the landlord and are amortized on a straight-line basis over the term of the lease and are recorded as a reduction of rent expense.

(j) Revenue recognition:

Revenue from the Company's medical technology agreements, including royalty payments, license and option fees and milestone payments, some of which are received as non-refundable upfront payments, is recorded net of amounts payable to third parties and is recognized on an accrual basis as the Company fulfills its obligations related to the various elements within the licensing agreement, in accordance with the contractual arrangements with third parties and the term over which the underlying benefit has been conferred. Payments related to medical technology agreements in which the benefit is conferred in future periods are deferred and recognized as revenue on a straight-line basis over the term of the related agreements. Revenues associated with multi-element arrangements are attributed to the various elements based on their relative fair values.

Revenue from product sales is recognized upon shipment, which is when title passes and the Company has no continuing obligations related to the product.

Cash or other compensation received in advance of meeting the revenue recognition criteria is recorded as deferred revenue.

Contract revenue is recorded at the time the associated research and development activities are performed, in accordance with the terms of the specific contracts.

(k) Research and development expenditures:

Research costs are expensed in the period in which they are incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets stringent criteria for capitalization and amortization. No development costs have been capitalized to date.

(l) Government assistance:

Government assistance, consisting of grants, forgivable loans and research tax credits, is recorded as a reduction of the related expense or cost of the asset acquired when reasonable assurance exists that the Company has complied with the terms and conditions of the approved grant or forgivable loan program, or for tax credits, when there is reasonable assurance that they will be realized. Government forgivable loans are a form of government assistance and are repayable by way of royalties only if revenues are generated from specified product sales.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 2. Significant accounting policies continued:

(m) Income taxes:

The Company follows the asset and liability method for accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases ("temporary differences"), and tax credits and loss carry forwards. The resulting changes in the net future tax asset or liability are included in income. Future tax assets and liabilities are measured using substantially enacted or enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the substantial enactment date. Future income tax assets are evaluated and if realization is not considered "more likely than not", a valuation allowance is provided.

(n) Fair value of financial instruments:

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, term deposits, bonds, commercial paper, amounts receivable (including government assistance receivable), accounts payable and accrued liabilities and demand loan, approximate fair value due to their short maturities. The obligations under capital leases bear interest at rates that in management's opinion approximate the current interest rates and therefore their fair value. The fair value of marketable securities is disclosed in note 5. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of its long-term debt approximates fair value.

(o) Foreign exchange:

The Company's currency of measurement and presentation is the Canadian dollar. The Company's subsidiaries that are located in the United States are considered to be integrated foreign operations. Accordingly, monetary items of the subsidiaries are translated into Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at transaction date rates. Any exchange gains or losses are included in earnings.

(p) Net earnings (loss) per share:

Net earnings (loss) per share is calculated based on the weighted average number of common shares outstanding. Diluted earnings (loss) per share is calculated using the treasury stock method.

(q) Estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the determination of the valuation of investments, patent and trademark rights and medical technology, the useful lives of assets for depreciation and amortization, stock-based compensation, the amounts recorded as revenue and deferred licensing revenue and accrued liabilities, and the allocation of the purchase price on an acquisition.

The Company's ability to recover the carrying value of its medical technology, patent and trademark rights and other assets depends on a variety of factors such as: legal, regulatory or contractual limitations; known technological advances; anticipated demand; the existence or absence of competition; and the continued availability of capital to finance the Company's activities.

(r) Stock-based compensation plan:

The Company has a stock-based compensation plan, which is described in note 14(e). As of January 1, 2003 compensation expense is recognized for the plan when stock or stock options are issued to employees and non-employees (note 3(a)). Any consideration paid by employees upon the exercise of stock options or purchase of stock is recorded as an increase in share capital.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 2. Significant accounting policies continued:

(s) Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Note 3. Changes in accounting principles:

(a) Stock-based compensation:

During the year the Company adopted the recommendations contained in the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 - Stock Based Compensation. Under this pronouncement, the Company has chosen to prospectively adopt the fair value method of accounting for all employee and non-employee stock-based compensation granted, modified or settled on or after January 1, 2003. No retroactive restatement is required and adoption of the recommendation has no effect on the prior period consolidated financial statements.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the equity instruments issued, and the awards are periodically re-measured during the vesting period as the options are earned. Any changes therein are recognized over the period, and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The fair value of stock-based awards to employees is typically measured at the grant date and amortized over the vesting period.

Prior to the adoption of the fair value method, the Company had used the settlement method for the recording of stock-based compensation. No compensation expense was recognized for the plan when stock or stock options were issued to employees.

Had compensation cost for the Company's employee stock option plan been determined based on the fair value at the grant dates for awards under this plan issued between January 1, 2002 and December 31, 2003, consistent with the fair value based method of accounting for stock-based compensation, the Company's loss for the year and loss per share would have been the pro forma amounts indicated below:

2003	As reported	Pro forma
Loss for the year	**$ (31,923,429)**	**$ (36,316,473)**
Loss per share:		
Basic	**$ (0.89)**	**$ (1.02)**
Diluted	**(0.89)**	**(1.02)**

2002	As reported	Pro forma
Loss for the year	$ (14,486,876)	$ (17,408,588)
Loss per share:		
Basic	$ (0.46)	$ (0.55)
Diluted	(0.46)	(0.55)

(b) Revenue recognition:

During the year, the Company adopted the recommendations of the Emerging Issues Task Force ("EITF") in consensuses, EIC-141, *Revenue Recognition* and EIC-142, *Revenue Arrangements with Multiple Deliverables.* These consensuses conform Canadian GAAP to US GAAP, including the EITF consensus regarding EITF Issue 00-21. The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate elements of accounting, but also how the arrangement's consideration should be allocated among separate units. Adoption of the consensuses had no effect on the consolidated financial statements.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 4. Acquisitions:

(a) Intellivax International, Inc. ("IVX"):

By a share purchase agreement completed May 15, 2001, the Company acquired all of the outstanding common shares of IVX, subsequently renamed to ID Biomedical Corporation of Quebec ("IDBQ"), a mucosal vaccine delivery company based in Montreal, Quebec, for consideration consisting of:

4,000,000 common shares of the Company, valued at their market price at the date of completion	$ 24,482,100
Acquisition costs	1,251,621
	$ 25,733,721

The 4,000,000 common shares are subject to an escrow agreement and were released over 24 months from the date of acquisition.

The acquisition has been accounted for by the purchase method of accounting and results of the operations have been consolidated from May 15, 2001, the date of acquisition. The purchase price allocation has been assigned to the specific assets acquired and liabilities assumed, based on their fair values, as follows:

Identifiable assets acquired:	
Cash	$ 254,194
Other current assets	2,227,295
Deposits	693,000
Facilities and equipment	1,592,799
Patent rights	271,896
Medical technology and other assets	22,969,412
Goodwill	809,880
Liabilities assumed:	
Current liabilities	(2,655,277)
Long-term debt	(106,384)
Capital leases	(323,094)
Purchase price	$ 25,733,721

Upon the acquisition, the Company assumed operating lease commitments of approximately $1.3 million as well as agreements that require payment of future royalties on certain commercialized products and/or sublicenses granted to third parties.

(b) ID Biomedical Corporation of Washington:

(i) On July 25, 2001, the Company acquired an additional 4,906,008 shares from treasury of IDBW, for consideration of the conversion of a loan of $12,854,581 to IDBW and cash of $3,748,498, increasing the Company's ownership interest to 94.46%. The acquisition of non-controlling interest has been accounted for by the step purchase method. A purchase price discrepancy of $1,139,746, which arose on the acquisition, has been allocated to medical technology and other assets.

(ii) By an agreement dated November 16, 2001, the Company purchased 283,334 common shares of IDBW from Aventis Pasteur ("AP") and cancelled AP's right to exchange these IDBW shares for 714,286 common shares of the Company for consideration of a note payable of US$1,400,000, increasing the Company's ownership interest to 96.73%. The acquisition of non-controlling interest has been accounted for by the step purchase method. A purchase price discrepancy of $2,092,251, which arose on the transaction has been allocated to medical technology and other assets.

(iii) On December 6, 2001, the Company acquired an additional 820,864 common shares from treasury of IDBW for cash consideration of $2,964,794 increasing the Company's ownership interest to 96.93%. The acquisition of non-controlling interest has been accounted for by the step purchase method. A purchase price discrepancy of $73,918, which arose on the acquisition has been allocated to medical technology and other assets.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 5. Short-term investments:

	2003	2002
Term deposits, treasury bills and government-backed commercial paper bonds	$ 7,129,511	$ 11,001,019
Commercial paper	–	6,454,728
Marketable securities	–	844,752
	$ 7,129,511	$ 18,300,499

Investments in term deposits, treasury bills, government-backed commercial paper and commercial paper are stated at cost, which approximates fair market value at December 31, 2003. Marketable securities in 2002 represented common shares of Third Wave Technologies Inc. and were written down to $844,752 during the year ended December 31, 2002. At December 31, 2002, the fair market value of the marketable securities was approximately $2,280,000. During the year ended December 31, 2003, the marketable securities were disposed of for proceeds of $2,529,731, resulting in a gain on disposal of $1,684,979.

Note 6. Government assistance receivable:

	2003	2002
Investment tax credits receivable (a)	$ 428,040	$ 984,002
Technology Partnerships Canada receivable (b)	1,341,284	1,041,546
	$ 1,769,324	$ 2,025,548

(a) In 2003, the Company recorded $553,057 (2002 - $770,741; 2001 - $447,009) related to government research tax credits and nil (2002 - $31,220; 2001 - $112,794) in other grants as a reduction of the related research and development expenses.

(b) Under the terms of an agreement entered into by IDBQ with Technology Partnerships Canada prior to the acquisition on May 15, 2001, IDBQ agreed to receive a financial contribution to a maximum amount of $5,938,680 over a period of three years for the development of mucosal proteosome vaccines for infectious diseases. IDBQ is committed to pay royalties of 4.5% based on its recognized gross revenues stemming from the commercialization of the mucosal proteosome vaccines for infectious diseases until 2012 to a maximum of $10,800,000. In 2003, $1,762,482 (2002 - $2,012,594; 2001 - $821,259) was recorded as a reduction of the related research and development expenses. To date, IDBQ has claimed the maximum amount under the agreement and as at December 31, 2003 no royalties are payable.

Note 7. Facilities and equipment:

2003	Cost	Accumulated depreciation and amortization	Net book value
Laboratory equipment	$ 6,941,842	$ 3,318,023	$ 3,623,819
Office furniture and equipment	2,054,410	1,312,750	741,660
Leasehold improvements	4,493,144	808,284	3,684,860
	$ 13,489,396	$ 5,439,057	$ 8,050,339
2002			
Laboratory equipment	$ 4,671,256	$ 2,377,090	$ 2,294,166
Office furniture and equipment	1,386,915	935,229	451,686
Leasehold improvements	2,896,265	1,197,206	1,699,059
	$ 8,954,436	$ 4,509,525	$ 4,444,911

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 7. Facilities and equipment continued:

Included in the cost of facilities and equipment are approximately $603,617 (2002 - $603,617) of assets under capital leases with accumulated amortization in the amount of approximately $358,332 (2002 - $216,717).

Note 8. Investment:

During 2000, the Company received 1,000,000 common shares of DiscoveRx, a private company, as payment for a research license and option valued at US$280,000. The Company's investment in DiscoveRx represents less than 1% of DiscoveRx's issued and outstanding voting shares and is carried at cost.

Note 9. Patent and trademark rights:

	2003	2002
Cost	**$ 1,726,805**	$ 1,857,962
Accumulated amortization	**332,711**	338,235
	$ 1,394,094	$ 1,519,727

During the year ended December 31, 2003, the Company wrote off $69,125 (2002 - $14,575; 2001 - $70,034) of previously capitalized patent rights due to patent applications that the Company did not consider worthy of pursuing. The amounts written off were included in amortization expense. In 2003, the Company also wrote off $273,628 of previously capitalized patent rights related to the disposal of medical technology. The amounts written off were included in the loss on disposal of medical technology and other assets.

Note 10. Medical technology and other assets:

Medical technology and other assets includes payments made under contractual agreements to acquire certain medical technologies and the cost of licenses.

2003	Cost	Accumulated amortization	Net book value
Meiogenics Agreement (a)	**$ 2,500,000**	**$ 1,370,432**	**$ 1,129,568**
IDNA Agreement (b)	**849,090**	**443,581**	**405,509**
UTRC Agreement (d)	**1,876,629**	**547,544**	**1,329,085**
WRAIR Agreements (f)	**38,471**	**4,770**	**33,701**
Acquired medical technology and other assets	**26,275,327**	**4,464,203**	**21,811,124**
	$ 31,539,517	**$ 6,830,530**	**$ 24,708,987**
2002			
Meiogenics Agreement (a)	$ 2,500,000	$ 971,768	$ 1,528,232
IDNA Agreement (b)	849,090	300,470	548,620
UCLA Agreement (c)	3,879,829	2,083,487	1,796,342
UTRC Agreement (d)	1,848,927	459,081	1,389,846
UBC Agreement (e)	22,242	–	22,242
WRAIR Agreements (f)	54,250	2,183	52,067
Acquired medical technology and other assets	26,275,327	2,805,375	23,469,952
	$ 35,429,665	$ 6,622,364	$ 28,807,301

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 10. Medical technology and other assets continued:

Estimated amortization expense related to medical technology and other assets and patent and trademark rights for each of the next three years to 2006 is approximately $2.4 million and $1.8 million in 2007 and 2008.

(a) Meiogenics Agreement:

The Company and Meiogenics US Limited Partnership, Meiogenics Canada Limited Partnership and Meiogenics Technology Management Corp. ("Meiogenics") entered into an asset purchase agreement (the "Meiogenics Agreement") dated July 29, 1992, as amended, under which the Company acquired certain patents, proprietary technology and intellectual property associated with Scissile Linkage Technology ("SLT") and Cycling Probe™ Technology ("CPT") (the "Meiogenics Assets") from Meiogenics effective December 18, 1992.

Under the Meiogenics Agreement, the Company made an initial payment of $1,000,000 consisting of 320,000 common shares of the Company issued from treasury. The Company also made a milestone payment of $1,000,000, comprised of 355,872 common shares of the Company issued from treasury. During 2002, the Company and Meiogenics entered into an agreement whereby the Company agreed to and paid a final cash payment of $500,000. Under the new agreement, the Company has no further obligation to make payments under the Meiogenics Agreement.

(b) IDNA Agreement:

The Company and Integrated DNA Technologies, Inc. ("IDNA") entered into an asset purchase agreement (the "IDNA Agreement") dated January 27, 1993 under which the Company acquired certain assets and was granted an exclusive sublicense of certain patents and patent applications relating to CPT (the "IDNA Assets"). On March 31, 1997, the Company granted IDNA a non-exclusive license to use the Meiogenics Assets and the IDNA Assets for the sole purpose of developing, producing and marketing products, based on SLT and CPT to be used for non-medical research purposes by institutions. The Company is entitled to receive royalties on the sale of any such products by IDNA.

In addition, on March 31, 1997 the Company and IDNA entered into an amendment to the IDNA Agreement pursuant to which the Company has agreed to fund a research and development program to be carried out by IDNA. Any funds paid by the Company to IDNA under this program will reduce the amount otherwise payable (the "Milestone Payment") by the Company to IDNA under the IDNA Agreement upon the achievement of certain goals relating to commercial development of the IDNA Assets. In 2001, the Company achieved a milestone and a final payment of US$351,000 (CDN$531,590) was paid.

(c) UCLA Agreement:

IDBW and the University of California at Los Angeles ("UCLA") entered into a licensing agreement (the "UCLA Agreement") dated April 7, 1993, as amended by various amendments, pursuant to which IDBW was granted an exclusive, worldwide royalty-bearing license to use certain patented technology of UCLA (the "UCLA technology") for the development of vaccines and immunotherapeutics against *Mycobacterium tuberculosis.* UCLA also granted IDBW the right to issue exclusive or non-exclusive sublicenses to third parties to use the UCLA technology. UCLA also granted to IDBW exclusive, worldwide license rights to a vaccine against *Legionella pneumophila* (Legionnaires disease) developed by UCLA. The rights to the *Legionella pneumophila* vaccine were terminated and returned to UCLA in 1998. Under the agreement, UCLA has collaborated with IDBW in research, development and testing of the tuberculosis vaccine and as needed will collaborate in the future.

Under the UCLA Agreement, as amended, IDBW paid UCLA a license issue fee of US$750,000 and will make further payments upon the attainment of certain milestones relating to the commercial development of the tuberculosis vaccine by UCLA and IDBW. The potential aggregate cost to IDBW to obtain the exclusive, worldwide royalty-bearing license to the UCLA technology, including the license issue fee and all development milestones, will total US$4,750,000 plus royalties.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 10. Medical technology and other assets continued:

(c) **UCLA Agreement** continued:

UCLA attained the first development milestone in 1994 which resulted in a payment by IDBW of US$1,000,000 to UCLA and on February 28, 1996, UCLA exercised its option to cause the Company to deliver to UCLA 82,238 common shares of the Company, which amounted to a value of US$650,000. UCLA attained the second development milestone in 1995 which resulted in a payment by IDBW of US$500,000 to UCLA. In 2001, the agreement was amended to provide an increased royalty rate in exchange for the return of 47,287 shares of the Company (note 12).

In 2002, IDBW terminated its rights and obligations to certain pending patent applications while retaining its rights and obligations to several issued patents. In 2003, the Company decided to discontinue research and development activities related to the development of the tuberculosis vaccine. As a result of this decision, the remaining estimated obligation to UCLA, repayable on the basis of increased royalties under the license agreement, totaling $285,550 was written off as an offset to the loss on disposal of medical technology and other assets related to the tuberculosis vaccine totaling $1,650,716. No further payments relating to the commercial development of UCLA's technology or royalties on product sales are due.

(d) **UTRC Agreement:**

IDBW and the University of Tennessee Research Corporation ("UTRC") entered into a licensing agreement (the "UTRC Agreement") dated August 29, 1997 pursuant to which IDBW was granted an exclusive, worldwide license to use certain patented technology of UTRC (the "UTRC Technology") for the development of a vaccine against group A streptococcus. UTRC also granted IDBW the right to issue exclusive or non-exclusive sublicenses to third parties.

Annual license maintenance fees are due and have been paid on each anniversary date of the agreement. In 1999, IDBW achieved its first development milestone after final documents were filed by the National Institute of Health and National Institute of Allergy and Infectious Diseases. The Company issued US$1,000,000 in common shares of IDBW upon accomplishment of this milestone in 2000. This amount was recorded as contributed surplus upon consolidation. The potential aggregate cost for IDBW to obtain the exclusive, worldwide license to the UTRC Technology, including the execution fee, the license maintenance payments and all development milestones will total US$370,000 cash, US$2,500,000 of IDBW common shares at market price and, upon receiving FDA approval for the first vaccine that utilizes UTRC technology, 3% of the then issued and outstanding shares of IDBW.

On August 20, 2003, IDBW executed an amendment to the UTRC Agreement. Upon signing the amendment, UTRC returned 408,163 shares of IDBW common stock and IDBW paid UTRC US$250,000 cash and provided UTRC US$250,000 worth of common stock of the Company, equaling 18,949 shares at the time of the amendment. The amendment also provides that all future milestone payments, if milestones are achieved, will be paid in common shares of the Company. There are no royalties due under this agreement. With the cancellation of the outstanding shares of IDBW held by UTRC, the effective ownership of IDBW by the company increased to 100% and the Company fulfilled its share capital obligation.

(e) **UBC Agreement:**

IDBW and The University of British Columbia ("UBC") entered into a License Agreement effective March 1, 2002 (the "UBC Agreement") pursuant to which IDBW was granted exclusive worldwide royalty-bearing rights to develop and market vaccines or immunotherapeutics based on UBC's proprietary technology related to enterhemorrhagic *E. coli* and *enteropathogenic E. coli ("E. coli")*. Under the UBC Agreement, UBC and IDBW were to collaborate on further research, development and testing of vaccines and other immunotherapeutics against *E. coli*. IDBW paid net license fees of US$15,000 and patent costs of $135,464 to December 31, 2002.

On April 2, 2003, the Company notified UBC that it would be terminating the UBC Agreement. Under the terms of the UBC Agreement, the Company's rights and obligations associated with the technology ceased as of May 30, 2003. No further payments relating to the commercial development of UBC's technology or royalties on product sales are due. License fees and patent costs totaling $225,965, incurred up until the date of termination were subsequently written off.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 10. Medical technology and other assets continued:

(f) WRAIR Agreements:

(i) Exclusive patent license agreement:

IDBQ and the Walter Reed Army Institute of Research ("WRAIR") entered into a patent license whereby WRAIR granted IDBQ a worldwide exclusive license, with the right to grant sub-licenses, for the use of certain patents and patent applications covering the Proteosome™ and Proteosome-based technologies. Under this agreement, IDBQ agreed to make payments upon the attainment of specified milestones for each product identified and pay royalties based on net sales of commercialized products and payments received for any sublicense granted to a third party. This agreement shall extend for the full term of patents issued or to be issued from the referred licensed patent rights.

(ii) Research Agreements:

IDBQ and WRAIR have also entered into cooperative research and development agreements in connection with research of Proteosome-based vaccines for enteric and infectious diseases, HIV infections and AIDS. Under the terms of the agreements, WRAIR, on behalf of the US government, agrees to grant IDBQ the rights to negotiate for an exclusive license to inventions developed under each cooperative research agreement, with WRAIR retaining certain non-exclusive rights for US government purposes.

(g) TheraGuide Agreement:

IDBW and TheraGuide, Inc. ("TheraGuide") entered into a Memorandum of Agreement dated November 24, 1997 (the "TheraGuide Agreement") and subsequently completed a license agreement on December 21, 2000, pursuant to which IDBW was granted exclusive worldwide royalty-bearing rights to develop and market vaccines or immunotherapeutics based on TheraGuide's proprietary technology related to human immunodeficiency virus ("HIV"). Under the TheraGuide Agreement, IDBW has paid license fees of US$150,000 to December 31, 2000. On November 15, 2001, IDBW terminated its rights and obligations to the HIV therapeutic vaccine. Under the termination agreement with TheraGuide, IDBW retained certain rights of first refusal to relicense the intellectual property in the future, and made a payment of US$140,000 to TheraGuide for reimbursement of preclinical expenses. The cumulative amount paid including the payment made for the right of first refusal to relicense was expensed in 2001 as a loss on disposal of medical technology and other assets.

(h) CPT and SLT License Agreements:

The Company has entered into several non-exclusive license, settlement and distribution agreements with various companies, granting these companies non-exclusive licenses to the CPT and SLT technologies, and to various products using these technologies. To December 31, 2003, the Company has received non-refundable fees which are being recognized in accordance with the underlying contractual agreements. The Company may also earn future milestone payments and royalties on product sales.

Note 11. Deferred licensing revenue:

	2003	2002
Balance, beginning of year	$ 7,563,751	$ 9,425,998
Additions	894,244	762,700
Revenue recognized	(2,689,569)	(2,624,947)
Balance, end of year	5,768,426	7,563,751
Current portion	2,308,220	2,242,448
	$ 3,460,206	$ 5,321,303

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 12. Long-term debt:

	2003	2002
Unsecured note payable to Aventis Pasteur (note 4(b)(ii)) with an effective interest rate of 6.5% per annum	$ –	$ 931,012
Estimated amount payable to UCLA, (note 10(c))	–	285,550
Bank loan secured and payable under the terms of the Federal Small Business Financing Act, bearing interest at the bank's prime rate plus 1.25% per annum	–	41,667
Unsecured promissory note bearing interest at 8.35% per annum	–	12,766
	–	1,270,995
Current portion of long-term debt	–	978,796
	$ –	$ 292,199

Note 13. Obligations under capital leases:

Minimum future payments at December 31, 2003 required under capital leases are as follows:

2004	$ 190,480
2005	34,622
2006	20,197
	245,299
Interest at 5.91% to 8.32%	9,150
	236,149
Current portion	183,940
	$ 52,209

Note 14. Share capital:

(a) **Authorized:**

200,000,000 common shares, without par value
100,000,000 class A preference shares, with a par value of $10
100,000,000 class B preference shares, with a par value of $50

(b) Shares issued for non-cash consideration have been assigned values based on market prices at date of agreement for issuance.

(c) **Common share and unit offerings:**

(i) On May 28, 2003, the Company completed a public offering of 3,000,000 common shares at a price of US$8.50 per share, resulting in gross proceeds of US$25,500,000 ($34,968,150 CAD).

(ii) On October 28, 2003, the Company completed a unit offering of 5,800,000 units at a price of US$17.37 per unit, resulting in gross proceeds of US$100,746,000 ($131,906,738 CAD). Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to one common share for a subscription price of US$25.00 and is exercisable by the holder for four years.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 14. Share capital continued:

(d) Warrants:

	2003		2002		2001	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	–	–	501,400	$ 2.75	2,533,991	$ 5.54
Issued	2,900,000	US$25.00	–	–	–	–
Exercised	–	–	(501,400)	2.75	(992,071)	5.94
Expired	–	–	–	–	(1,040,520)	6.50
Outstanding, end of year	2,900,000	US$25.00	–	$ –	501,400	$ 2.75

(e) Incentive stock options:

Under the ID Biomedical Stock Option plan, the Company may grant options to its directors, officers and service providers (which include employees) for up to 5,889,278 shares of common stock. The exercise price of each option equals the market price of the Company's stock on the date of grant. The board of directors sets the vesting schedule and expiry date which cannot be more than ten years after the grant date. Options generally vest quarterly over a four year period from the date of grant and expire five to seven years after the grant date. There are also options that vest upon the achievement of certain performance criteria.

A summary of the status of the plan as of December 31, 2003, 2002 and 2001 and changes during each year are as follows:

	2003		2002		2001	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	4,649,004	$ 6.79	3,708,231	$ 4.81	2,490,034	$ 4.67
Granted	570,950	13.41	2,180,531	8.47	1,953,427	4.96
Exercised	(513,544)	5.79	(1,215,074)	3.80	(77,709)	3.71
Forfeited and expired	(180,339)	8.94	(24,684)	5.34	(657,521)	4.86
Outstanding, end of year	4,526,071	$ 7.65	4,649,004	$ 6.79	3,708,231	$ 4.81
Options exercisable, end of year	1,910,638	$ 5.90	1,469,325	$ 5.26	1,534,731	$ 4.38

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 14. Share capital continued:

(e) Incentive stock options continued:

The per share weighted average fair value of stock options granted during 2003 was $8.76.

During the year, the Company recognized $1,664,388 in compensation expense as a result of stock options awarded to employees. The stock based compensation expense was calculated using the fair value method and was recognized in the financial statements as research and development or general administration expense, based on the classification of the employee's salaries. The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2003	2002
Expected option lives	**4.35 years**	4.32 years
Risk-free interest rate	**3.82%**	3.71%
Dividend yield	**0%**	0%
Volatility	**84.92%**	83.75%

The following table summarizes information about the stock options outstanding at December 31, 2003:

	Options outstanding			Options exercisable	
Exercise prices	Number outstanding, December 31, 2003	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable, December 31, 2003	Weighted average exercise price
$ 3.75 - $ 4.90	**1,067,471**	**2.38**	**$ 4.81**	**944,471**	**$ 4.86**
$ 5.00 - $ 5.87	**608,383**	**2.89**	**5.17**	**465,416**	**5.07**
$ 6.00 - $ 6.75	**541,592**	**1.93**	**6.36**	**35,173**	**6.28**
$ 6.80 - $ 8.75	**488,200**	**3.43**	**7.05**	**154,246**	**7.07**
$ 9.40 - $ 9.91	**1,456,600**	**4.58**	**9.53**	**283,887**	**9.47**
$ 10.00 - $23.33	**363,825**	**5.59**	**15.30**	**27,445**	**11.95**
	4,526,071		**$ 7.65**	**1,910,638**	**$ 5.90**

As of December 31, 2003, the Company has available for grant an additional 668,836 options under the Plan.

IDBW, the Company's wholly-owned subsidiary, issued a total of 392,000 options (the "IDBW Options") to acquire common shares of IDBW in 1998 and 1999. Each of the IDBW Options was exercisable into one common share of IDBW at the price of US$0.01 per common share.

At the Annual General meeting of Members on June 25, 1999, it was approved that in order to provide employees of IDBW who held 392,000 IDBW Options with liquidity, the Company acquire the IDBW Options in return for 404,368 special rights (the "Special Rights") to be issued by the Company. Each Special Right entitled the holder thereof to acquire a common share of the company at the price of $0.01 CAD, vesting over three years.

During the year ended December 31, 2001, the remaining 76,564 Special Rights were exercised.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 14. Share capital continued:

(f) Shareholder rights plan:

The Company adopted a shareholder rights plan effective May 1, 1996.

Rights issued under the plan become exercisable only when a person acquires 20% or more of the Company's outstanding common shares without complying with the Permitted Bid provision of the plan or without the approval of the Company's Board of Directors. To be a Permitted Bid, the plan requires that a bid must be open for not less than 60 days and that not less than 50% of the outstanding common shares held by shareholders other than the acquiring person be tendered into the bid. One right will be issued in respect of each common share outstanding on May 31, 1996 and in respect of each common share issued subsequent to May 31, 1996 and prior to an event qualifying rights issued under the plan for exercise. Each right entitled the holder to purchase common shares of the Company at a 50% discount to the then market price. The number of shares the holder would be entitled to purchase for each right held is that number determined by dividing the exercise price of $150 by one-half of the then market price per share.

(g) Weighted average number of common shares:

	2003	2002	2001
Weighted average number of common shares outstanding - basic	**35,740,070**	31,398,139	28,611,024
Dilutive effect of:			
Stock options and warrants	**–**	–	–
Contingently convertible IDBW shares (note 4(b)(ii))	**–**	–	–
Weighted average number of common shares outstanding - diluted	**35,740,070**	31,398,139	28,611,024

Note 15. Income taxes:

Income tax expense (recovery) varies from the amounts that would be computed by applying the Canadian federal and combined provincial income tax rate of 33.2% (2002 - 37.04%; 2001 - 42.93%) to loss before income taxes as shown in the following table:

	2003	2002	2001
Computed taxes at Canadian federal and provincial tax rates	**$ (10,592,160)**	$ (5,071,899)	$ (6,300,481)
Losses at (higher) lower tax rates in foreign jurisdictions	**(156,638)**	255,595	542,366
Permanent and other differences	**(1,397,838)**	(217,157)	4,609,776
Unrecognized tax assets	**12,166,966**	5,827,305	1,148,339
Income tax expense	**$ 20,330**	$ 793,844	$ –

During the years ended December 31, 2003 and 2002, income tax expense relates to withholding taxes paid in a foreign jurisdiction relating to a payment received for a licensing revenue arrangement.

The tax effect of the temporary differences that gives rise to future tax assets as of December 31, 2003 and 2002 is presented below:

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 15. Income taxes continued:

	2003	2002
Future income tax assets:		
Tax loss carry forwards	$ **26,241,589**	$ 21,086,462
Research and development expenses	**10,755,732**	5,595,268
Facilities and equipment	**(105,674)**	664,586
Share issuance costs	**2,913,685**	336,207
Deferred revenue	**2,053,560**	2,774,678
Other	**656,539**	1,538,478
Total gross future tax assets	**42,515,431**	31,995,679
Valuation allowance	**(34,807,951)**	(22,332,825)
	7,707,480	9,662,854
Future tax liability:		
Medical technology and other assets	**(7,707,480)**	(9,662,854)
	$ **–**	$ –

At December 31, 2003, the Company has investment tax credits aggregating $6,452,614, available to reduce Canadian federal income taxes otherwise payable for up to 10 years and $1,816,814 tax credits available to reduce US federal income taxes otherwise payable for up to 20 years.

At December 31, 2003, the Company has non-capital losses carried forward for tax purposes which are available to reduce taxable income of future years in Canada of $33,345,000 (2002 - $26,125,000) and the United States of $43,635,000 (US$33,741,265) (2002 - $37,075,000 (US$23,450,000)). The losses expire as follows:

	Canada	United States
2004	$ 100,000	$ –
2005	3,965,000	–
2006	6,720,000	–
2007	1,700,000	–
2008	5,660,000	1,595,000
2009	6,115,000	1,240,000
2010 and thereafter	9,085,000	40,800,000
	$ 33,345,000	$ 43,635,000

Note 16. Cash and cash equivalents:

Cash and cash equivalents included in the statements of cash flows is comprised of the following amounts:

	2003	2002	2001
Cash on hand and balances with banks	$ **1,266,394**	$ 891,345	$ 1,485,558
Cash equivalents	**147,821,255**	4,620,077	8,950,383
	$ **149,087,649**	$ 5,511,422	$ 10,435,941

Note 17. Commitments:

The Company entered into operating lease agreements for office and laboratory space and office equipment.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 17. Commitments continued:

Future minimum lease payments under these commitments are as follows:

2004	$ 1,088,741
2005	1,167,169
2006	1,205,447
2007	1,216,909
2008	1,210,763
Thereafter	4,883,905

In addition, the Company, IDBW and IDBQ have commitments under medical technology agreements (note 10) and ongoing research and development contracts that are entered into in the normal course of business. The Company also has outstanding letters of credit totaling $347,652 (2002 - $254,319).

Note 18. Segment disclosures and major customers:

(a) **Operating segments:**

The Company organizes its business into four operating segments: clinical development programs, research and development contracts, other research programs and gene-based testing. Transactions between reportable segments have been eliminated. Substantially all of the Company's revenues generated from external customers, equipment and goodwill are in North America. In the year ended December 31, 2003, the Company has reaggregated its operating segments to better reflect its activities. Prior periods have been restated to reflect the reaggregation.

2003	Clinical development programs	Research and development contracts	Other research programs	Gene-based testing	Total
Licensing revenue	$ –	$ –	$ –	$ 2,697,210	$ 2,697,210
Contract revenue	–	4,141,450	–	–	4,141,450
Net research and development expenses	25,084,647	3,144,698	927,004	96,532	29,252,881
General and administrative expenses	5,107,809	929,601	574,355	107,813	6,719,578
Depreciation and amortization	3,039,329	277,774	333,783	665,084	4,315,970
Other income (expenses)	1,092,643	303,076	(1,591,134)	1,742,085	1,546,670
Income taxes	–	–	–	20,330	20,330
Net earnings (loss)	(32,139,142)	92,453	(3,426,276)	3,549,536	(31,923,429)
Goodwill	771,314	–	–	–	771,314
Total assets	181,861,860	2,042,831	8,016,784	3,492,909	195,414,384
Expenditures for:					
Facilities and equipment	3,809,206	1,106,937	209,232	145,724	5,271,099
Medical technology and other assets	11,923	–	–	–	11,923
Patent and trademark rights	193,484	–	102,745	30,842	327,071

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 18. Segment disclosures and major customers continued:

(a) Operating segments continued:

2002	Clinical development programs	Research and development contracts	Other research programs	Gene-based testing	Total
Licensing revenue	$ –	$ –	$ –	$ 10,884,527	$10,884,527
Net research and development expenses	10,310,937	–	1,318,287	770,947	12,400,171
General and administrative expenses	3,581,396	–	907,786	327,282	4,816,464
Depreciation and amortization	2,856,586	–	541,852	603,557	4,001,995
Other income (expenses)	335,717	–	(28,194)	(3,666,452)	(3,358,929)
Income taxes	67	–	2	793,775	793,844
Net earnings (loss)	(16,413,269)	–	(2,796,121)	4,722,514	(14,486,876)
Goodwill	771,314	–	–	–	771,314
Total assets	51,800,031	–	6,458,558	4,988,400	63,246,989
Expenditures for:					
Facilities and equipment	1,377,285	–	248,441	215,992	1,841,718
Medical technology and other assets	70,495	–	-	500,000	570,495
Patent and trademark rights	326,699	–	29,026	81,171	436,896

2001	Clinical development programs	Research and development contracts	Other research programs	Gene-based testing	Total
Licensing revenue	$ –	$ –	$ –	$ 2,538,437	$ 2,538,437
Contract revenue	–	446,598	–	–	446,598
Net research and development expenses	4,650,496	60,982	794,733	1,571,790	7,078,001
General and administrative expenses	2,780,731	43,810	544,495	746,014	4,115,050
Depreciation and amortization	2,053,843	8,353	420,923	620,646	3,103,765
Other income (expenses)	1,004,700	14,463	(250,464)	(4,173,242)	(3,404,543)
Net earnings (loss)	(8,480,370)	347,916	(2,010,615)	(4,573,255)	(14,716,324)
Goodwill	771,314	–	–	–	771,314
Total assets	56,505,758	112,293	7,801,354	11,212,732	75,632,137
Expenditures for:					
Facilities and equipment	2,279,970	35,844	445,718	613,151	3,374,683
Medical technology and other assets	26,322,022	–	221,312	531,590	27,074,924
Patent and trademark rights	543,232	–	105,568	115,568	764,368
Goodwill	809,880	–	–	–	809,880

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 18. Segment disclosures and major customers continued:

(b) Geographic information:

	United States	Japan	Other	Total
Revenue from external customers:				
2003	**$ 6,722,074**	**$ 116,586**	**$ –**	**$ 6,838,660**
2002	2,852,776	8,031,751	–	10,884,527
2001	2,839,577	14,458	131,000	2,985,035

	United States	Canada	Total
Long-lived assets:			
2003	**$ 8,470,489**	**$ 26,454,245**	**$ 34,924,734**
2002	7,260,104	28,283,149	35,543,253

Long-lived assets consists of facilities and equipment, patent and trademark rights, medical technology and goodwill based on their physical location. Intangible assets are attributed based on ownership rights.

(c) Major customers:

The following table identifies revenues generated from individual partners or collaborators comprising 10% or more of the Company's revenue in a given year:

	2003	2002	2001
Entity A	**$ 1,297,215**	$ 1,334,240	$ 952,890
Entity B	**1,276,250**	1,276,250	1,276,250
Entity C	**Less than 10%**	7,937,863	Less than 10%
Entity D	**Less than 10%**	Less than 10%	275,763
Entity E	**4,141,450**	Less than 10%	Less than 10%
Entity F	**Less than 10%**	Less than 10%	315,598

Note 19. Subsequent events:

(a) Under the terms of an agreement entered into between IDBQ and Technology Partnerships Canada, as amended on March 17, 2004, the Company agreed to issue Technology Partnerships Canada 91,659 common share purchase warrants. Each common share purchase warrant entitles the holder to one common share of the Company for a subscription price of $16.01 and is exercisable by the holder for five years.

(b) On April 19, 2004 the Company and Shire Pharmaceuticals Group plc ("Shire") entered into an Asset Purchase Agreement related to the sale of Shire's vaccine business to the Company. The closing of the transaction, which is conditional on approval of the Canadian government under certain government contracts and obtaining regulatory approvals, is targeted for on or before June 30, 2004.

Under the terms of the agreement, upon closing, the Company will acquire all of Shire's vaccine assets for a cash payment of US$60 million (payable $30 million on closing and $30 million to be held in escrow and payable on the first anniversary of closing) and subscription receipts allowing Shire to acquire approximately 5.4 million common shares of ID Biomedical representing additional consideration of US$60 million.

As part of the agreement, Shire will provide the Company with a loan facility of US$100 million to be used over a four year period to finance the continued development of the vaccine business that the Company is acquiring. This facility is repayable out of the net sales of non-Canadian Fluviral and pipeline vaccine products that are developed utilizing the funding facility.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 20. Recent Canadian accounting standards:

(a) The CICA approved new Accounting Guideline 15, Consolidation of Variable Interest Entities, which becomes effective for interim or fiscal periods beginning on or after November 1, 2004. The Company has not yet assessed the impact of the Guideline on its financial statements but expects to analyze each of its collaborative agreements under the Guideline.

(b) The CICA approved an amendment to Handbook Section 3860, Financial Instruments - Presentation and Disclosure, which becomes effective for fiscal years beginning on or after November 1, 2004. The amendment requires obligations that may be settled, at the issuer's option, by a variable number of the issuer's own equity instruments to be presented as liabilities. Prior to the amendment, under the previous standard, these instruments were presented as equity. The Company has not yet assessed the impact of the new guideline on its financial statements, but does not expect any significant impact to its financial statements.

Note 21. United States generally accepted accounting principles:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada which differ in some respects from those applicable in the United States and from practices prescribed by the United States Securities and Exchange Commission.

The significant differences and their effect on these consolidated financial statements are as follows:

(a) **Medical technology and other assets and patent and trademark rights:**
Under Canadian generally accepted accounting principles ("Canadian GAAP"), expenditures relating to the acquisition of medical technology and other assets and patent and trademark rights which relate to in-process research and development may be deferred and amortized to expense in a rational and systematic manner. Under United States generally accepted accounting principles ("US GAAP"), these expenditures are charged to expense when incurred. As a result, under US GAAP, amortization expense would have decreased by $1,040,661 (2002 - $1,006,000; 2001 - $853,792), research and development expenses would have increased by $11,923 (2002 - $570,495; 2001 - $3,671,206) and loss on disposal of medical technology and other assets would have decreased by $1,603,053 (2002 - nil; 2001 - nil) to reflect the differences in the accounting for the initial cost of medical technology and other assets. In addition, under US GAAP, amortization expense would have decreased by $179,076 (2002 - $98,829; 2001 - $88,183); research and development expenses would have increased by $327,071 (2002 - $418,642; 2001 - $693,860) and loss on disposal of medical technology and other assets would have decreased by $273,628 (2002 - nil; 2001 - nil) for costs included in patent and trademark rights under Canadian GAAP.

(b) **Stock-based compensation:**

(i) Under Canadian GAAP, the Company adopted the recommendations of CICA Handbook Section 3870, and has chosen to prospectively adopt the fair value method of accounting for stock based compensation (note 3(a)). For US GAAP purposes, the Company has elected to prospectively adopt Statement of Financial Accounting Standard No. 148 (SFAS 148), "Accounting for Stock Based Compensation – Transition and Disclosure", an amendment to Statement of Financial Accounting Standard No. 123 (SFAS 123) "Accounting for Stock Based Compensation" for employee awards granted under its stock option plan, modified or settled subsequent to January 1, 2003. The standard permits the prospective recognition of stock based compensation expense for all employee stock-based compensation transactions occurring subsequent to January 1, 2003 using a fair value based method. Prior to the adoption of this standard, the Company applied the disclosure provisions of SFAS 123 for stock options granted to employees. As the Company has prospectively adopted comparable accounting standards for both US GAAP and Canadian GAAP in the current period, employee stock based compensation expense amounted to $1,664,388 for both US GAAP and Canadian GAAP for the year ended December 31, 2003.

(ii) Under US GAAP, the Company continues to account for the issue of stock options to employees and directors prior to January 1, 2003 under APB 25 "Accounting for Stock Issued to Employees" under which the intrinsic value of stock options is calculated on the date of the grant as the difference between

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 21. United States generally accepted accounting principles continued:

(b) Stock-based compensation continued:

(ii/continued)

the established market value and the exercise price. Certain options issued by IDBW during the periods presented had an intrinsic value at the date of the grant, which is being recognized on a straight-line basis over the three to four year vesting period of the options. Accounting for the options on this basis would result in recording additional expense of nil (2002 - nil; 2001 - $132,104).

At December 31, 2003, there are nil (2002 - nil ; 2001 - nil) IDBW options which have been granted and that are outstanding as stock based compensation.

(iii) Under US GAAP, the Company accounts for those stock options having performance criteria issued to directors and senior management of the Company in accordance with FIN 28 *"Accounting for Stock Option Appreciation Rights and Other Variable Stock Option or Award Plans"*. These stock options are considered variable and cumulative compensation expense is recognized to the extent the market price exceeds the exercise price at the measurement date. For the year ended December 31, 2003, the compensation expense related to these options was nil (2002 - nil; 2001 - $512,535). During 2001, conditions attached to these options were revised to include an automatic vesting date.

Subsequent to the inclusion of the automatic vesting date, the Company has accounted for these stock options under APB 25 *"Accounting for Stock Issued to Employees"* under which the intrinsic value of stock options is calculated on the date the stock options were considered fixed and the compensation expense is recognized over the vesting period as the difference between the established market value and the exercise price. Accounting for the options on this basis would result in recording additional compensation expense of $109,602 (2002 - $572,956; 2001 - $623,032).

(iv) Prior to the adoption of SFAS 148, the Company applied the disclosure provisions of SFAS 123 for US financial reporting purposes for stock option grants to employees and directors. Had compensation expense been determined based on fair value at the date of grant consistent with the measurement provisions of SFAS 123 for awards issued prior to January 1, 2003, loss for the year and loss per share under US GAAP would have been the pro forma numbers indicated below:

	2003		2002		2001	
	As reported	Pro forma	As reported	Pro forma	As reported	Pro forma
Loss for the year under US GAAP	**$ (27,809,084)**	**$ (33,429,084)**	$ (13,477,617)	$ (17,713,617)	$(37,000,527)	$ (40,065,527)
Loss per share under US GAAP:						
Basic	**(0.78)**	**(0.94)**	(0.43)	(0.56)	(1.29)	(1.40)
Diluted	**(0.78)**	**(0.94)**	(0.43)	(0.56)	(1.29)	(1.40)

(v) For the purposes of determining fair value under 21(b)(i), and (iv), the fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield 0.0% (2002 and 2001 - 0.0%), expected volatility 84.92% (2002 - 83.75%; 2001 - 86.57%), risk-free interest rates 3.82% (2002 - 3.71%; 2001 - 4.70%) and expected average option term of 4.35 years (2002 - 4.32 years and 2001 - 3.97 years).

(c) Rental expense:

The Company incurred rental expenses of $1,005,090 under operating leases during the year ended December 31, 2003 (2002 - $817,238; 2001 - $534,800).

(d) Statements of cash flows:

Under US GAAP, cash used by operations would increase and cash used in investing activities would

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 21. United States generally accepted accounting principles continued:

(d) **Statements of cash flows** continued:
decrease by $338,994 (2002 - $1,007,391; 2001 - $1,292,069) for the costs of medical technology and patent and trademark rights capitalized, which would be expensed under US GAAP.

(e) **Acquisition date of IDBQ:**
Under Canadian GAAP, the measurement date used for purposes of calculating the market price of the securities issued to acquire all of the outstanding shares of IDBQ was a reasonable period of time before the date the purchase agreement was completed. Under US GAAP, the measurement date was based on the market price of the securities over a reasonable period of time before and after the terms of the acquisition were agreed to and announced. This results in a decrease in medical technology recorded at acquisition of $4,282,100.

(f) **In-process research and development on acquisition of IDBQ:**
In connection with the acquisition of IDBQ, for US GAAP purposes the Company would have recorded a $18,687,312 charge to in-process research and development during the year ended December 31, 2001. The amount was determined by identifying the intranasal influenza vaccine project for which technological feasibility had not been established and for which no alternative future use existed. Under Canadian GAAP, acquired in-process research and development is being amortized over 16 years. As a result, during the year ended December 31, 2001, amortization would have decreased by $1,093,871, which would have resulted in a net increase in research and development expenses of $17,593,441. For the year ended December 31, 2003, amortization expense would have decreased by $1,466,523 (2002 - $1,466,523).

The value of the project identified to be in process was determined by estimating the future cash flows from the project once commercially feasible, less estimated future cash flows required to bring the project to commercialization, and discounted the net cash flows back to their present value. The discount rate used was 34.5% for the project. The expected costs to bring the project to commercialization was based on an estimate of the timeline and cost associated with each of the steps of the regulatory process for the intranasal influenza vaccine to be used in adults and children. To determine the length of each of the steps, an independent valuator considered the length of clinical trials for other drugs and the experience of the valuator in the biotechnology field. IDBQ was in the process of conducting a phase I clinical trial on its adult influenza vaccine at the time of acquisition. In broad terms, the categories of costs include the cost of conducting all phases of clinical trials and BLA submission, plus research, development and manufacturing.

Development of the technology remains a substantial risk to the Company due to factors including the remaining effort to achieve technological feasibility, obtaining regulatory approvals and competitive threats from other companies.

(g) **Investments:**
Under Canadian GAAP, the Company reports short-term investments at the lower of cost and net realizable value, with changes going to the statement of operations, and long-term investments under the cost method.

Under US GAAP, the Company classifies its investments in debt and equity securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities, which represent all debt securities and any equity securities that have readily determinable market values are recorded at fair value. Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts, which is consistent with the Canadian GAAP treatment. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of shareholders' equity in

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 21. United States generally accepted accounting principles continued:

(g) Investments continued:

other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. At December 31, 2002, the fair value of the Company's available-for-sale equity securities with readily determinable market value exceeded its carrying value. Under US GAAP as at December 31, 2002, investments and other comprehensive income would have increased by $1,435,248. At December 31, 2003 the Company does not hold any available for sale equity securities. Gains recognized on the sale of available-for-sale equity securities under Canadian GAAP are reflected in the consolidated statement of operations.

Consistent with Canadian GAAP, a decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Dividend and interest income are recognized when earned.

The Company classifies all debt securities reported as short-term investments as held-to-maturity. As such, there are no measurement differences between Canadian and US GAAP related to these securities.

	2003		2002		2001	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Available-for-sale:						
Equity securities:						
With readily determinable market value	**$ –**	**$ –**	$ 844,752	$ 2,280,000	$ 4,640,619	$ 4,640,619

	2003	2002	2001
Held-to-maturity at carrying value:			
Commercial paper	**$ 144,149,991**	$ 8,221,022	$ 8,901,082
Government guaranteed securities	**7,161,513**	11,581,654	11,608,279
Bankers acceptances	**3,882,512**	2,282,682	575,454

All held-to-maturity securities are due within one year and the fair values approximate carrying value.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 21. United States generally accepted accounting principles continued:

(h) The effects of the above differences between Canadian and United States generally accepted accounting principles are as follows:

2003	Patent and trademark rights	Medical technology and other assets	Acquired in-process research and development	All other assets	Total assets
Assets in accordance with Canadian generally accepted accounting principles as at December 31, 2003	**$ 1,394,094**	**$ 10,048,592**	**$ 14,660,395**	**$169,311,303**	**$195,414,384**
United States generally accepted accounting principles adjustment (note 21(a), (e) and (f))	**(1,394,094)**	**(10,048,592)**	**(14,660,395)**	**–**	**(26,103,081)**
Assets in accordance with United States generally accepted accounting principles as at December 31, 2003	**$ –**	**$ –**	**$ –**	**$169,311,303**	**$169,311,303**

2002	Patent and trademark rights	Medical technology and other assets	Acquired in-process research and development	All other assets	Total assets
Assets in accordance with Canadian generally accepted accounting principles as at December 31, 2002	$ 1,519,727	$ 12,680,383	$ 16,126,918	$ 32,919,961	$ 63,246,989
United States generally accepted accounting principles adjustment (note 21(a), (e), (f) and (g))	(1,519,727)	(12,680,383)	(16,126,918)	1,435,248	(28,891,780)
Assets in accordance with United States generally accepted accounting principles as at December 31, 2002	$ –	$ –	$ –	$ 34,355,209	$ 34,355,209

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003, 2002 and 2001 (expressed in Canadian dollars)

Note 21. United States generally accepted accounting principles continued:

(h) Continued:

	2003	2002
Shareholders' equity in accordance with Canadian generally accepted accounting principles	**$ 180,838,165**	$ 51,282,780
Patent and trademark rights	**(1,394,094)**	(1,519,727)
Medical technology	**(10,048,592)**	(12,680,383)
Acquired in-process research and development	**(14,660,395)**	(16,126,918)
Investments	**–**	1,435,248
Shareholders' equity in accordance with United States generally accepted accounting principles	**$ 154,735,084**	$ 22,391,000
Shareholders' equity is comprised of:		
Share capital	**$ 280,987,744**	$ 120,315,189
Additional paid-in capital	**10,137,873**	9,331,614
Deferred stock compensation	**(31,739)**	(141,341)
Other comprehensive income	**–**	1,435,248
Accumulated deficit	**(136,358,794)**	(108,549,710)
	$ 154,735,084	$ 22,391,000

	2003	2002	2001
Loss for the year in accordance with Canadian generally accepted accounting principles	**$ (31,923,429)**	$ (14,486,876)	$ (14,716,324)
Medical technology expenditures (note 21 (a))	**2,631,791**	435,505	(2,817,414)
Patent and trademark rights expenditures (note 21 (a))	**125,633**	(319,813)	(605,677)
Acquired in-process research and development (note 21 (f))	**1,466,523**	1,466,523	(17,593,441)
Stock option compensation costs (note 21 (b) (ii) and (iii))	**(109,602)**	(572,956)	(1,267,671)
Loss for the year in accordance with United States generally accepted accounting principles	**$ (27,809,084)**	$ (13,477,617)	$ (37,000,527)
Loss per share in accordance with United States generally accepted accounting principles:			
Basic	**$ (0.78)**	$ (0.43)	$ (1.29)
Diluted	**(0.78)**	(0.43)	(1.29)

(i) Recent United States accounting standards:

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 ("FIN 46"). This Interpretation, and related amendments, address the consolidation of business enterprises of variable interest entities as defined in the Interpretation. The provisions of FIN 46 applicable to the Company are applicable to entities that are not small business issuers no later than the end of the first reporting period ending after March 15, 2004 (December 15, 2004 for entities that are small business issuers). The Company has not determined the effect of FIN 46 on its financial statements but intends to analyze all collaborative agreements under the new interpretation.

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The information in this annual report contains so-called “forward-looking” statements. These include statements about ID Biomedical’s expectations, beliefs, intentions or strategies for the future, which may be indicated by words or phrases such as “anticipate”, “expect”, “intend”, “plan”, “will”, “we believe”, “ID Biomedical believes”, “management believes”, and similar language. All forward-looking statements are based on ID Biomedical’s current expectations and are subject to risks and uncertainties and to assumptions made. Important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include: (i) the possibility that the transaction currently proposed between Shire Pharmaceuticals Group plc and ID Biomedical will take longer than expected to complete; (ii) the possibility that some or all of the conditions of closing for such transaction will not be satisfied or waived and that such transaction will, therefore, be terminated before it is completed; (iii) the possibility that the terms of such transaction will be altered prior to completion thereof, including as may be required to satisfy conditions of required regulatory consents; (iv) the ability to successfully complete preclinical and clinical development of its products; (v) the ability to obtain and enforce timely patent and intellectual property protection for its technology and products; (vi) the ability to avoid, either by product design, licensing arrangement or otherwise, infringement of third parties’ intellectual property; (vii) decisions, and the timing of decisions, made by the health regulatory agencies regarding approval of its products for human testing; (viii) the ability to complete and maintain corporate alliances relating to the development and commercialization of its technology and products; (ix) market acceptance of its technology and product; and (x) the competitive environment and impact of technological change. There is no guarantee that the development path from Phase I to Phase II to Phase III and so on will be either linear or successful. ID Biomedical bases its forward-looking statements on information currently available to it, and assumes no obligation to update them.

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