

## **Nexia Announces First Quarter Results and Provides Corporate Update**

Montreal, Quebec, Canada, January 14, 2005 – Nexia Biotechnologies Inc. (“Nexia”) (TSX: NXB) today announced its fiscal 2005 first quarter results and provided a corporate update.

### **FINANCIAL UPDATE**

The net loss for the quarter ended November 30, 2004 decreased by \$72,000 to \$1.79 million (\$0.08 per share) from \$1.86 million (\$0.08 per share) for the quarter ended November 30, 2003. The decrease was due to reductions in almost all spending categories but was offset by expenses as related to exploring various financing alternatives including various merger, acquisition and divestiture alternatives. In addition, in 2003, a non-recurring closure charge of \$120,000 relating its Plattsburgh, New York facility was incurred.

#### **Revenues**

Contract revenues for the quarter ended November 30, 2004 increased to \$313,000 from \$253,000 for the quarter ended November 30, 2003. The revenues relate to the research contract with the U.S. Army to develop Protexia<sup>®</sup>. Interest revenues for the quarter ended November 30, 2004 decreased by \$61,000 to \$48,000 from \$109,000 for the quarter ended November 30, 2003. The decrease in interest revenues was primarily due to lower cash balances and lower interest rates.

#### **Research and Development Expenses**

Gross R&D expenses, including amortization expense of \$168,000 (\$240,000 in 2003), for the quarter ended November 30, 2004 decreased by \$330,000 to \$1.18 million from \$1.51 million for the quarter ended November 30, 2003. The decrease was primarily the result of reduced expenses attributable to the restructuring of operations implemented in 2003 and a significant reduction in expenses related to the BioSteel<sup>®</sup> program, which were partially offset by Protexia<sup>®</sup> development costs.

Investment tax credits and other government assistance (“ITC”) in the quarter ended November 30, 2004 decreased by \$11,000 to \$177,000 from \$188,000 for the quarter ended November 30, 2003. The net decrease is due to an increase in the refundable rate on Quebec investment tax credit which was offset by a reduction in other government assistance to nil in the current quarter in comparison to \$38,000 in the comparable quarter of the previous year. These grants were received from the Canadian Department of National Defence.

#### **Business Development Expenses**

Business development expenses for the quarter ended November 30, 2004 increased by \$419,000 to \$780,000 from \$361,000 for the quarter ended November 30, 2003, which was primarily due to professional fees regarding various possible merger, acquisition and divestiture activities.

### **Administrative Expenses**

Administrative expenses decreased by \$38,000 to \$313,000 for the quarter ended November 30, 2004 from \$351,000 for the quarter ended November 30, 2003 which was due to a reduction in the use of professional services.

### **Liquidity and Capital Resources**

Nexia had cash and cash equivalents and short-term investments of \$8.9 million at November 30, 2004. The major uses of funds during the three-month ended November 30, 2004, included \$2.1 million used for operations and \$203,000 invested in property, plant, equipment and intellectual property, compared to \$1.5 million and \$56,000 respectively for the three-month ended November 30, 2003. As at December 31, 2004 the Company had 23,366,789 common shares and 1,672,600 stock options outstanding.

The Company will incur significant expenditures related to the proposed transaction as described below addition to expenses under Nexia's current operating plan. If the transaction is not accepted by the shareholders, management believes that the Company's current cash, cash equivalents, short-term investments and other current assets should be sufficient to finance its operations and capital needs into the end of calendar 2005. However, Nexia will have to curtail certain of its development activities in respect to the Protexia® program until additional funds are obtained either through government programs or a financing transaction.

### **PROTEXIA® PRODUCTION CONTINUES ON TRACK**

As previously reported, Nexia's Protexia® program has made significant progress. In December, Nexia announced the positive results of two independent series of tests, conducted by the U.S. Army (USAMRICD) and the Canadian (DRDC Suffield) military. The tests conducted at USAMRICD and DRDC Suffield simulated human nerve agent exposure with different skin types and time delays, then tested Protexia®'s efficacy when administered by different methods - intravenous (IV) or intramuscular (IM). **In both cases, Protexia® delayed the time to onset of poisoning symptoms and lessened them when compared to control groups.** This observation is significant because it expands the opportunity to transport casualties and thus allow enhanced treatment outside and within a hospital setting.

Nexia signed a three year agreement in September with DRDC Suffield in Alberta to accelerate the development of Protexia®. DRDC Suffield allocated \$2 M to execute three objectives at their facility to delineate the clinical utility of Protexia® against specific chemical weapons threats.

Nexia announced also in September the signing of an exclusive agreement with GTC Biotherapeutics, Inc. (GTC) for GTC to license its transgenic technology for Nexia to continue the development, manufacture, and sale of Protexia®.

## CORPORATE UPDATE & SUBSEQUENT EVENTS

On January 6, 2005, Nexia issued a press release announcing that its Board of Directors has accepted an offer from PharmAthene, Inc. to purchase substantially all of its assets and operations related to the Protexia® program, pending shareholder approval on February 28, 2005. PharmAthene has offered US \$18 million in cash and Series C Convertible Preferred shares, plus warrants. A cash payment of at least \$0.60 per share will be distributed to Nexia shareholders following their approval of the deal and the cash distribution to shareholders. In addition, Nexia will hold the shares and warrants in PharmAthene and will be able to participate in the future success of Protexia® and the biodefense biologicals under development by PharmAthene. Nexia shareholders will continue to hold shares in Nexia following the closing of the transaction. Additional information and the complete agreement can be found on Nexia's listing with SEDAR ([www.sedar.com](http://www.sedar.com)).

All of the operations and assets related to Protexia® will be acquired, which includes receivables, property, plant and equipment and intellectual property, and PharmAthene will assume the liabilities, including severance payments, related to the Protexia® operation and the long-term debt. Nexia will receive a total consideration of US\$18 million for these assets. This consideration will include a minimum cash consideration of US\$9.25 million and Series C convertible preferred shares, with a value of approximately US\$0.91 per share, of PharmAthene as well as warrants to purchase Series C convertible preferred shares at US\$0.91 per share, which expire in February 2008, equal to 30% of the number of Series C convertible preferred shares issued to Nexia and warrants to acquire common shares of PharmAthene equal to 18% of the Series C convertible preferred shares issued to Nexia, exercisable at US\$0.01 per share until October, 2014 if certain milestones are not met. Two significant shareholders of Nexia, Ontario Teachers Pension Plan and Canadian Medical Discovery Fund will make a concurrent private placement in PharmAthene Series C convertible preferred shares at an aggregate minimum of US\$3.5 million. In addition, Ontario Teachers Pension Plan Board and Canadian Medical Discovery Fund will invest their proceeds from the capital reduction of the Company in PharmAthene. Any additional investment in PharmAthene under the proposed agreement will result in an increase in the cash component of PharmAthene's offer, and reduce proportionally the number of Series C convertible preferred shares issued as consideration. The reinvestment of a capital reduction of \$0.60 per share would increase the cash proceeds to be received by Nexia by approximately US\$1.6 million. Nexia will hold no more than 13% of the voting shares of PharmAthene.

Nexia will retain its cash and cash equivalents, short-term investments and investment tax credits recoverable as well as the liabilities not associated with Protexia® and will be responsible for paying its costs associated with this transaction. These liabilities and the Company's portion of the cost of this transaction are estimated to be approximately \$2 million. The Company expects to record a significant gain on this disposal. Nexia will retain assets associated with its BioSteel® program, which it intends to divest.

If accepted, this transaction will lead to a reduction of stated capital to Nexia shareholders as Nexia will effectively distribute to its shareholders the net available cash at Closing, which includes the cash proceeds from the sale of assets as well as the Company's cash and short term investments on hand at the time. It is expected that Nexia will retain sufficient funds to carry

out its duties for the foreseeable future and distribute funds in excess of this amount to its shareholders.

Nexia's activities, after the transaction, will essentially be limited to overseeing its investment in PharmAthene. Accordingly, Nexia intends to reduce to the fullest extent possible the size of its Board of Directors and its management structure. In addition, Nexia will cease to meet certain listing requirements of the TSX, including the requirement to carry on an active business. Therefore, Nexia intends to apply to transfer its listing to NEX. NEX is an open auction market on which trading takes place using the same electronic system as the TSX Venture Exchange.

This proposed transaction must be approved by a majority of not less than two-thirds of the votes cast by the shareholders at the special meeting of shareholders which will be held on February 28th, 2005. Nexia intends to mail a proxy circular in late January 2005 that will provide additional information concerning the transaction.

Mr. Dana Rath, Vice-President, Finance & Administration has left Nexia. Nexia would like to take this opportunity to thank him for his dedicated service to Nexia. In the interim, his duties will be carried out by Nexia's Controller.

#### **ABOUT NEXIA**

Nexia develops and manufactures complex recombinant proteins in the milk of transgenic goats for medical applications. Nexia's strength is producing proteins that cannot be made commercially using other recombinant systems. Nexia's lead product is Protexia®, which is funded by a tripartite development consortia consisting of Nexia, and the U.S. and Canadian militaries. Protexia®, which is recombinant human butyrylcholinesterase, is being developed as a military prophylaxis and as a post-exposure therapy for civilian casualties in the event of a potential chemical nerve agent terrorist attack. Protexia®'s capability as a medical countermeasure has been demonstrated in vivo to protect animals from multiple lethal doses of a broad spectrum of nerve agent chemical weapons. For more information, please visit Nexia's website at [www.nexiabiotech.com](http://www.nexiabiotech.com).

#### **FORWARD-LOOKING STATEMENT AND OTHER IMPORTANT INFORMATION**

Except for the historical information presented herein, matters discussed herein may constitute forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. Statements that are not historical facts, including statements preceded by, followed by, or that include the words "believes"; "anticipates"; "intends"; "plans"; "expects"; "estimates"; or similar statements are forward-looking statements. Such statements reflect management's current views and are based on certain assumptions. Actual results could differ materially from those currently anticipated as a result of a number of factors, including risks and uncertainties discussed in Nexia's filings with Canadian regulatory authorities, the approval of the transaction described herein by shareholders and the satisfaction of all conditions relating thereto and to the financing arrangements entered into among CMDF, OTPP and PharmAthene (including obtaining all required consents or approvals). An additional business risk associated with the Protexia® program relates to the fact that large purchases are expected to be made from a few customers. Changes in demand from these customers could significantly affect our program. There can be no assurance that such development efforts will succeed, that such products will receive required regulatory

clearance or that, such products would ultimately achieve commercial success. While Nexia anticipates that subsequent events and developments may cause Nexia's views to change, Nexia specifically disclaims any obligation to update these forward-looking statements.

Nexia assumes no responsibility with respect to any information contained herein relating to any entity other than itself. Website addresses referred to herein are provided for convenience purposes only and information contained therein is not incorporated herein by reference, nor does Nexia assume any responsibility in connection therewith.

This news release and the information contained herein does not constitute nor is it intended to constitute a solicitation of proxies in connection with the special meeting of shareholders of Nexia Biotechnologies Inc. to be held to consider the proposed transaction. Nexia will be sending a proxy circular to its shareholders and will be filing other documents regarding the proposed transaction. For more information, please visit [www.sedar.com](http://www.sedar.com). **Before making any voting or investment decision, shareholders of Nexia and investors are urged to read the proxy circular regarding the proposed transaction and any other relevant documents carefully in their entirety when they become available because they will contain important information about the proposed transaction.**

Protexia® and BioSteel® are registered trademarks of Nexia Biotechnologies Inc. in Canada.

#### CONTACT INFORMATION

For Nexia, please contact William C. Garriock, Chairman of Nexia Biotechnologies Inc. at 450-424-8920.

## CONSOLIDATED BALANCE SHEETS

As at	November 30, 2004 \$ [unaudited]	August 31, 2004 \$
<b>ASSETS</b>		
Current		
Cash and cash equivalents	1,727,340	604,470
Short-term investments	7,180,269	10,624,216
Investment tax credits recoverable	907,000	730,000
Receivables	406,190	264,251
Prepays and other assets	261,323	332,968
Total current assets	10,482,122	12,555,905
Property, plant and equipment	4,251,626	4,416,765
Intellectual property	457,600	282,149
	<b>15,191,348</b>	<b>17,254,819</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	933,957	1,177,893
Current portion of long-term debt	104,092	154,490
Total current liabilities	1,038,049	1,332,383
Long-term debt	—	—
	<b>1,038,049</b>	<b>1,332,383</b>
Shareholders' equity		
Capital stock	64,370,763	64,370,763
Contributed surplus	280,101	258,263
Deficit	(50,497,565)	(48,706,590)
Total shareholders' equity	14,153,299	15,922,436
	<b>15,191,348</b>	<b>17,254,819</b>

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICITS

(Unaudited)

	<b>Three-months ended November 30,</b>	
	<b>2004</b>	<b>2003</b>
	\$	\$
<b>REVENUES</b>		
Contract revenues	<b>312,648</b>	252,700
Interest income	<b>48,046</b>	108,554
<b>Total revenues</b>	<b>360,694</b>	<b>361,254</b>
<b>EXPENSES</b>		
Research and development	<b>1,017,147</b>	1,274,303
Amortization	<b>168,021</b>	240,414
<b>Total research and development</b>	<b>1,185,168</b>	<b>1,514,717</b>
Investment tax credits and other government assistance	<b>(177,000)</b>	(187,587)
<b>Net research and development</b>	<b>1,008,168</b>	<b>1,327,130</b>
Business development	<b>780,346</b>	360,713
Administrative	<b>312,902</b>	350,769
Amortization	<b>25,147</b>	36,987
Loss on exchange rate	<b>20,546</b>	18,522
Interest on long-term debt	<b>4,560</b>	9,235
Restructuring costs	<b>—</b>	120,457
<b>Total expenses</b>	<b>2,151,669</b>	<b>2,223,813</b>
<b>Net Loss</b>	<b>1,790,975</b>	<b>1,862,559</b>
<b>Deficit, beginning of period</b>	<b>48,706,590</b>	<b>40,251,289</b>
<b>Deficit, end of period</b>	<b>50,497,565</b>	<b>42,113,848</b>
<b>Basic and diluted loss per share</b>	<b>0.08</b>	<b>0.08</b>
<b>Weighted average number of common shares</b>	<b>23,366,789</b>	<b>23,125,723</b>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three-months ended November 30,	
	2004	2003
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(1,790,975)	(1,862,559)
Add items not affecting cash flows:		
Amortization of property, plant and equipment	186,262	253,067
Amortization of intellectual property	6,906	24,334
Stock-based compensation expense	21,838	—
	(1,575,969)	(1,585,158)
Changes in non-cash working capital balances relating to current operations	(491,229)	132,465
<b>Cash flows from operating activities</b>	<b>(2,067,198)</b>	<b>(1,452,693)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(21,124)	(3,179)
Acquisition of intellectual property	(182,357)	(53,310)
Maturity of short-term investments	3,443,947	11,207,058
Purchase of short-term investments	—	—
<b>Cash flows relating to investing activities</b>	<b>3,240,466</b>	<b>11,150,569</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares	—	19,765
Repayment of long-term debt	(50,398)	(46,261)
<b>Cash flows relating to financing activities</b>	<b>(50,398)</b>	<b>(26,496)</b>
<b>Net change in cash and cash equivalents during the period</b>	<b>1,122,870</b>	<b>9,671,380</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>604,470</b>	<b>552,383</b>
<b>Cash and cash equivalents, end of the period</b>	<b>1,727,340</b>	<b>10,223,763</b>
<b>Supplemental cash flow information</b>		
Interest paid	4,560	9,235