



Q1

Quarterly Report

First Quarter - Fiscal 2003

Labopharm

Highlights

HIGHLIGHTS FOR THE QUARTER

Reported Positive European Phase III Clinical Trial Results for Once-Daily Tramadol

- Achieved the primary end point of the study, providing a statistically and clinically significant reduction in pain associated with osteoarthritis
- Demonstrated a superior adverse events profile compared with that of the comparator, a twice-daily formulation of tramadol currently marketed in Europe
- Provided sustained pain relief for a full 24-hour period, matching the twice-daily formulation dosed twice per day
- Two-thirds of the patients receiving Labopharm's once-daily tramadol required a dose of 200 mg or less per day to achieve effective pain relief

Initiated Regulatory Approval Process in Europe for Once-Daily Tramadol

- Commenced Mutual Recognition Procedure (MRP) in Europe with Marketing Authorization Application (MAA) in France for once-daily tramadol
- France to act as Reference Member State (RMS)
- Process will allow rapid approval across the European Union (EU)

Initiated Phase III Clinical Trials for Once-Daily Tramadol in the U.S.

- Will evaluate safety and efficacy in pain reduction
- Completion expected towards end of 2003

- With European data, will support U.S. New Drug Application (NDA) filing expected in calendar 2003
- Enrollment proceeding ahead of schedule

HIGHLIGHTS SUBSEQUENT TO QUARTER END

Secured Marketing Partners for Once-Daily Tramadol for Italy, Spain and Portugal

- Gruppo Angelini (Italy) and Esteve S.A. (Spain and Portugal) will have exclusive rights to market and sell once-daily tramadol in their respective jurisdictions
- Labopharm will supply Angelini and Esteve with finished, packaged product through Labopharm Europe Limited
- Labopharm is actively engaged in discussions to establish additional marketing channels for the remainder of Europe, and has initiated discussions with potential partners in the U.S.

Advanced Development of Once-Daily Allegra-D®

- Initiated manufacture of the NDA registration batches, which will support the pivotal clinical trials in preparation for an NDA submission to the FDA

Terminated Development of a Solid Oral Dosage Formulation of Levalbuterol

- Strategic decision consistent with strategy to focus resources on high potential product candidates
- Product had successfully advanced through Phase II clinical trials

Moved into New Corporate Headquarters

- Facility houses corporate offices, state-of-the-art laboratories and GMP-grade pilot manufacturing plant
- Consolidated personnel from three separate locations
- Allows development of an expanded number of products more efficiently and economically



President's Message to Shareholders

These last fifteen months have truly seen us make extraordinary progress in our drive to commercialize our first product, once-daily tramadol. Everything that we did in 2002 moved us further down the path to commercialization, but it has been over the last three months that we have really begun to see the results of our efforts. As we near commercialization we continue to make rapid progress, highlighted by strong European clinical trial results, the initiation of the regulatory approval process in Europe, the creation of marketing partnerships in key regions and the finalizing of numerous logistical details, including those related to manufacturing and packaging. We are very excited about the potential of Labopharm's once-daily tramadol. Continuing feedback from both current and potential partners indicates that the global market opportunity for Labopharm's tramadol formulation may be significantly larger than originally thought.

Once-Daily Tramadol on Track for Regulatory Approval by Year-End

In January, we reported positive results from the European Phase III clinical trial in which Labopharm's once-daily formulation of tramadol achieved the primary end point of the study, providing a statistically and clinically significant reduction in pain associated with osteoarthritis. In the study, once-daily tramadol also demonstrated a superior adverse events profile compared with that of the comparator twice-daily formulation. Our formulation of tramadol permitted once-daily dosing and provided analgesia for a full 24-hour period. Furthermore, two-thirds of the patients receiving our once-daily tramadol required a dose of 200 mg or less per day to achieve effective pain relief.

During the quarter, we initiated the regulatory approval process in Europe for once-daily tramadol, with the submission of a Marketing Authorization Application (MAA) with regulatory authorities in France (Agence Française de Sécurité Sanitaire des Produits de Santé). The submission commences the Mutual Recognition Procedure (MRP) under which approval in France

(the Reference Member State), expected before the end of the year, would allow rapid approval across the European Union (EU) during 2004.

We continue to pursue a global strategy for once-daily tramadol, which includes parallel development and regulatory strategies in both Europe and the USA. During the quarter, we initiated two double blind, multi-centre, randomized trials in the U.S. to evaluate the efficacy of once-daily tramadol in reducing moderate to moderately severe pain in patients suffering from osteoarthritis. Tramadol is currently only available in the U.S. in immediate-release forms that require dosing four to six times daily.

Subsequent to quarter-end we announced we had secured marketing agreements for once-daily tramadol for Italy with Gruppo Angelini and for Spain and Portugal with Esteve S.A. for once-daily tramadol. These agreements supplement our relationship with Aventis France, the dominant player in the French market and provide us with marketing channels in three of the five largest EU markets. We are currently establishing additional marketing channels for Europe as well as the USA. These agreements will leverage local expertise, focused sales forces and, strong doctor relationships enabling rapid market penetration of our once-daily tramadol.

Developments Across Our Pipeline Labopharm continues to advance its program to develop a once-daily formulation of Aventis' product, Allegra-D®. During the quarter we completed pilot pharmacokinetic studies and, following discussions with Aventis, have initiated manufacture of NDA registration batches that will support the pivotal clinical studies in preparation for an NDA submission to the U.S. Food and Drug Administration (FDA).

Consistent with our strategy to focus resources on high potential product candidates, subsequent to quarter end, we made the strategic decision to terminate development of a solid oral dosage formulation of levalbuterol, which the Company had successfully advanced through Phase II clinical trials. Although we clearly have a product that we could take forward, as part of a planned review, we halted development of the product based on changing trends in the treatment of asthma with oral beta-agonists and the genericization of Volmax, which we believe reduced the commercial opportunity for the product and the potential return on investment. The decision frees up resources that we have already deployed to greater effect on other programs with stronger commercial prospects. Our pipeline remains very robust and we are working on adding additional high-potential products.

Delivering Results In just three years we have advanced our once-daily tramadol program from feasibility and formulation, on the laboratory bench, all the way through phase three clinical trials to regulatory filing. This clearly demonstrates not only the strength of the Contramid® technology but the organization's ability to rapidly push products toward commercialization. In the last three months we have made rapid, measurable progress as we passed key value building milestones on the path to the market. We made significant advancements in other areas of our pipeline as many of our high potential drug development programs have moved ahead, following on the success of once-daily tramadol. We fully realize that a strong first product needs an equally strong pipeline of products behind it if a pharmaceutical company is to experience rapid growth. With the potential to submit regulatory filings for more than one product this year, we now stand on the verge of realizing the value in the Contramid® drug delivery technology and the pipeline that we have built around it.

Labopharm remains on track to widely commercialize its first product in 2004, which should result in rapid revenue growth and improved financial performance. We continue to advance additional high potential products across our strong pipeline using the same guiding principals we utilized in the rapid development of our lead in-house product, once-daily tramadol. Finally, we continue to execute our strategy, which should allow Labopharm to grow into a fully integrated, international specialty pharmaceutical company and build sustained long-term shareholder value. We look forward to keeping you updated on what promises to be a very exciting year ahead.

(signed)

James R. Howard-Tripp
President and
Chief Executive Officer
May 14, 2003

Management's Discussion and Analysis

The following information should be read in conjunction with Labopharm's unaudited interim Consolidated Financial Statements and Notes included herewith, which are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements, as well as the audited Consolidated Financial Statements and Management's Discussion and Analysis for the ten-month period ended December 31, 2002.

OVERVIEW

Labopharm specializes in the development of pharmaceutical products incorporating its proprietary controlled-release technologies. As a specialty pharmaceutical company focused on drug delivery, the Company's business model differs from conventional biotechnological and pharmaceutical business models. Many of Labopharm's potential products are drugs that are already on the market, to which the Company applies its technologies to form new products with improved release profiles and performance. As a result, Labopharm's products should have shorter development timelines, lower development costs and, through the marketing resources of the Company's partners, could achieve faster market penetration.

The Company currently generates revenues from in-house development and late-stage licensing of oral controlled-release products using its core technology, Contramid®, and from collaborations with international pharmaceutical companies in which Labopharm's controlled-release technologies are used to enhance the therapeutic benefits of their branded products.

PRODUCT DEVELOPMENT

The first quarter was characterized by the achievement of several key milestones on the path toward commercialization of the Company's lead in-house product, a once-daily version of the analgesic tramadol (hydrochloride). Labopharm also continued to advance a number of other products in its pipeline.

In-house Projects

During the quarter, Labopharm initiated the regulatory approval process in Europe for the Company's lead in-house product, a once-daily formulation of tramadol, commencing the Mutual Recognition Procedure (MRP). The submission of a Marketing Authorization Application (MAA) to regulatory authorities in France (Agence Française de Sécurité Sanitaire des Produits de Santé) starts the process under which approval in France (the Reference Member State) will permit expedited approval across the European Union (EU).

Labopharm also announced the results of the European Phase III clinical trial to assess the efficacy and safety of its once-daily version of tramadol. The positive results demonstrated that Labopharm's once-daily tramadol achieved the primary end point of the study, providing a statistically and clinically significant reduction in pain associated with osteoarthritis. In the study, Labopharm's once-daily tramadol also demonstrated a superior adverse events profile compared with that of the comparator twice-daily formulation. Labopharm's formulation of tramadol permitted once-daily dosing and provided analgesia for a full 24-hour period. Furthermore, two-thirds of the patients receiving Labopharm's once-daily tramadol required a dose of 200 mg or less per day to achieve effective pain relief.

The European Phase III study to assess the efficacy and safety of once-daily tramadol is part of the Company's global regulatory strategy for once-daily tramadol. This strategy involves conducting pharmacokinetic and efficacy studies in both Europe and the United States to more rapidly move tramadol through regulatory filings and commercialization in key global markets. During the quarter Labopharm initiated two double blind, multi-centre, randomized trials in the U.S. to evaluate the efficacy of once-daily tramadol in reducing moderate to moderately severe pain in patients suffering from osteoarthritis. The subject population will include men and women aged 40 to 75 and patient dosing will last for 12 weeks. Enrolment in the U.S. clinical trials is proceeding ahead of schedule. The Company expects to complete the trials in 2003, and the U.S. trial data, in conjunction with the data from the European Phase III and other completed studies, will form the New Drug Application (NDA) filing to the FDA, which is expected before the end of the year. Tramadol is currently available in the U.S. only in immediate-release forms that require dosing four to six times daily.

Subsequent to quarter-end, Labopharm, through its wholly owned subsidiary, Labopharm Europe Limited, secured marketing agreements for Italy with Gruppo Angelini and for Spain and Portugal with Esteve S.A., for once-daily tramadol. Gruppo Angelini is a privately held international conglomerate with pharmaceutical, consumer products and machinery divisions, comprising 20 operating companies.

Esteve S.A. is a privately held, international chemical-pharmaceutical company with a 75-year operating history and facilities in Spain, Portugal, Mexico and China. These agreements supplement the existing relationship for France, Europe's largest tramadol market, with Aventis France SA. Under the terms of the revenue sharing agreements, Labopharm will grant its marketing partners the exclusive right to market and sell once-daily tramadol in their respective countries. The Company will supply each partner with finished, packaged product through Labopharm Europe Limited, and will be responsible for obtaining regulatory approval in each country. Labopharm is actively engaged in discussions to establish marketing channels for other jurisdictions in the EU, other countries in Europe, the United States and globally.

Partnered Projects

In the first quarter of fiscal 2003, the Company also made progress across other areas of its pipeline. Labopharm continued to advance the once-daily Allegra-D® program as planned completing pilot pharmacokinetic studies. Subsequent to quarter end, following discussions with Aventis, Labopharm initiated manufacture of the NDA registration batches. These will be used to conduct the pivotal clinical studies in preparation for an NDA filing with the FDA.

Consistent with its strategy to focus resources on high potential product candidates, subsequent to quarter end Labopharm made the strategic decision to terminate development of a solid oral dosage formulation of levalbuterol, which the Company had successfully advanced through Phase II clinical trials. The decision was made based on changing trends in the treatment of asthma with oral beta-agonists and the genericization of Volmax, which the Company believes has reduced the commercial opportunity for the product and the potential return on investment.

NEW FACILITY

During the quarter, construction was completed on the Company's new corporate headquarters in the Parc scientifique et de haute technologie de Laval. The facility was built and is owned by real estate developer SITQ Immobilier and Labopharm is leasing the facility from SITQ under a 15-year lease. In early April, Labopharm moved into its new facility.

The 48,000 square-foot facility houses Labopharm's corporate offices as well as state-of-the-art laboratories and a GMP-grade (Good Manufacturing Practice) pilot plant. The facility consolidates employees from three separate locations and permits the development of an expanded number of products, more efficiently and more economically, potentially cutting as much as six months off product

development times and lowering costs associated with the manufacture of drugs for clinical trials.

CHANGE IN FISCAL YEAR-END

In 2002, the Company changed its financial year-end from February 28 to December 31. Accordingly, the consolidated statements of loss, cash flows and deficit for the first quarter ended March 31, 2003, are compared to the quarter ended February 28, 2002.

OPERATING REVENUE

For the first quarter ended March 31, 2003, revenue was \$306,400 compared with \$418,600 for the quarter ended February 28, 2002. Research and development contracts accounted for \$78,000 of total revenue during the quarter, reflecting progress made on the MedPointe Inc. agreement, while the comparative quarter included revenue from the Aventis Pharmaceuticals Inc. agreement for Allegra-D® totaling \$57,300. Investment income for the quarter ended March 31, 2003 was \$228,400 compared to \$361,300 for the quarter ended February 28, 2002. This decrease reflects the gradual decline in the Company's investments as the proceeds from the equity financing concluded in November 2001 are used to realize the Company's strategic plan.

As the Company is securing licensing agreements in Europe for its flagship product tramadol, it expects to begin to receive payments in regards to these agreements in the second half of the current year as it reaches certain milestones including marketing approval of the product in Europe.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses (net of tax credits) for the first quarter ended March 31, 2003 were \$6,246,000 compared with \$2,434,300 for the quarter ended February 28, 2002. The significant increase is primarily attributable to the costs associated with the completion of the final stages of the Phase III clinical trial for tramadol in Europe and the initial stages of the two Phase III studies in the U.S. The increase in research and development expenses is also the result of a significant increase in the number of employees and related costs which were required to move forward the Company's growing product portfolio, which includes eight different programs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the first quarter ended March 31, 2003 were \$1,867,600 compared to \$2,153,700 for the quarter ended February 28, 2002. The current quarter includes costs associated with the finalization of the international corporate structure as Labopharm prepares for the global commercialization of its products, as well as increased activities in the Labopharm Europe Limited subsidiary including the initiation of the regulatory approval in Europe for once-daily tramadol. While selling, general and administrative expenses for the current quarter increased over the comparative quarter in areas such as personnel costs, corporate affairs and public relations, several non-recurring expenses for marketing research and management bonuses in the comparative quarter, explain the lower selling, general, and administrative expenses in the current quarter.

NET LOSS

Net loss for the first quarter ended March 31, 2003 was \$7,816,800, or \$0.25 per share, compared with \$4,182,000, or \$0.14 per share for the quarter ended February 28, 2002. The increase reflects the multiple concurrent Phase III clinical trials for once-daily tramadol, and the general increase in the Company's costs as it moves closer to the global commercialization of tramadol and to becoming an integrated, international, specialty pharmaceutical company with a robust portfolio of products.

LIQUIDITY AND CAPITAL RESOURCES

Cash and investments at the end of the first quarter ended March 31, 2003 were \$24,934,700 compared with \$32,480,600 as at December 31, 2002, a \$7,545,900 decrease. The major use of funds during the quarter included \$6,238,400 used for operations and \$1,292,100 invested in property, plant and equipment as the Company prepared to move into its new state-of-the-art facilities subsequent to quarter end.

Under the Company's current operating plan, management believes that the Company's current cash, cash equivalents, and investments should be sufficient to finance its operations and capital needs to 2004. However, in light of the inherent uncertainties associated with research and development programs, scale-up and commercialization of products, ability to enter into collaborative research and development agreements, the results of clinical testing, receipt of regulatory approval of certain products and ability to secure licensing agreements, it may be necessary for the Company to either (i) raise additional funds for the continuing development and marketing of its products, or (ii) delay or scale-back its development programs.

RISKS AND UNCERTAINTIES

The field of drug delivery systems is still a relatively new and rapidly expanding market that brings therapeutic benefits to patients and offers good commercial potential for pharmaceutical companies. Labopharm's success in this market will depend, in the short and medium-term, on the applicability of its Contramid® technology and its competitiveness with other available technologies. The Company is of the opinion that Contramid® can be applied successfully to a wide variety of active ingredients. Although no product incorporating Contramid® has yet been fully developed and marketed, Labopharm's results to date with different active ingredients have been promising. Contramid®'s performance in studies and clinical trials completed to date compare favorably with those of competing technologies. Furthermore, Contramid® is among the most economical drug delivery technologies. Nevertheless, there has been rapid and considerable evolution of technology within the drug delivery system industry and the competitive advantages of new systems developed by competitors could challenge those of Contramid®.

Labopharm places great importance on the protection of its intellectual property and has a portfolio of patents and patent applications that it intends to enforce. However, there is no guarantee that these patents are valid, even if they are reputed to be, or that the Company's patent applications will be approved, or that the Company will be successful in defending them.

Labopharm's success also depends, in large measure, on its ability to conclude licensing, development, manufacturing and marketing agreements with other pharmaceutical companies for products to which its drug delivery systems would be applied. There is no assurance that partners will not withdraw from agreements at a later date or that products will successfully reach the market.

This type of agreement or alliance is common in the pharmaceutical industry, and to date, the Company's technology has been well received by the industry. The Company has six agreements with pharmaceutical companies. There is no assurance that partners will not withdraw from agreements at a later date or that products will successfully reach the market.

The development of pharmaceutical products is a process that requires large investments and can take years to complete. Projects can be abandoned by partners and/or the Company for a variety of reasons or regulatory authorities can refuse to approve new products. With respect to projects it has itself initiated, the Company attempts to minimize risk through the judicious selection of product candidates and by focusing on improving products that have already been approved.

With respect to manufacturing Contramid®, the Company has an agreement with Cerestar, a well-known European manufacturer of starch and starch derivatives. Cerestar is qualified to provide the scaled-up quantities required to satisfy development and commercial needs.

Labopharm expects to generate significant revenue from the licensing agreements and alliances it has concluded and that it expects to conclude with pharmaceutical companies. The form in which revenue is generated could vary greatly depending on the conditions of the agreement. Labopharm expects that the principal forms of revenue will be through the achievement of milestones, which are lump-sum payments made at key stages of product development, as well as product sales and royalties.

Until it begins to generate significant revenue according to the terms of its strategic alliances, the Company foresees continued losses, primarily as a result of its research and development activities.

The price of Labopharm's common shares is subject to fluctuation. Factors such as strategic alliances, research results and clinical studies, questions regarding patents and any number of other factors could considerably influence the price of Labopharm's common shares.

To the extent any statements made in this document contain information that is not historical, these statements are essentially forward looking and are subject to the risks and uncertainties described above. Actual results, levels of activity, performance or achievements could differ materially from those projected herein and depend on a number of factors, including the successful and timely completion of clinical studies, the uncertainties related to the regulatory process and the commercialization of the drug thereafter.

Consolidated Statements of Loss (Unaudited)

(Thousands of dollars except for per share data and number of shares)

For periods of three months ended:	March 31, 2003	February 28, 2002
	\$	\$
OPERATING REVENUE		
Research and development contracts	78.0	57.3
Investment income	228.4	361.3
	<u>306.4</u>	<u>418.6</u>
OPERATING EXPENSES		
Research and development expenses [note 3]	6,246.0	2,434.3
Selling, general and administrative expenses	1,867.6	2,153.7
Finance charges	9.6	12.6
	<u>8,123.2</u>	<u>4,600.6</u>
NET LOSS	(7,816.8)	(4,182.0)
BASIC AND DILUTED LOSS PER SHARE	(0.25)	(0.14)
Weighted average number of common shares outstanding	31,060,549	30,756,433

Consolidated Statements of Cash Flows (Unaudited)

(Thousands of dollars)

For periods of three months ended:	March 31, 2003	February 28, 2002
	\$	\$
OPERATING ACTIVITIES		
Net loss	(7,816.8)	(4,182.0)
Items not affecting cash		
Depreciation of property, plant and equipment	101.1	84.4
Amortization of intangible assets	25.2	199.3
Loss on disposal and write-off of property, plant and equipment	-	8.4
	<u>(7,690.5)</u>	<u>(3,889.9)</u>
Net change in non-cash working capital items	1,452.1	(308.0)
	<u>(6,238.4)</u>	<u>(4,197.9)</u>
INVESTING ACTIVITIES		
Acquisition of investments	(2,621.9)	(4,305.7)
Disposals and maturities of investments	9,565.8	6,681.6
Acquisition of property, plant and equipment	(1,292.1)	(63.2)
Acquisition of intangible assets	(27.4)	(99.2)
	<u>5,624.4</u>	<u>2,213.5</u>
FINANCING ACTIVITIES		
Repayment of capital leases obligations	(1.8)	(1.6)
Proceeds from issuance of capital stock	13.8	1,799.5
Issuance costs of capital stock	-	(300.8)
	<u>12.0</u>	<u>1,497.1</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(602.0)	(487.3)
Cash and cash equivalents, beginning of period	1,718.2	1,858.2
Cash and cash equivalents, end of period	<u>1,116.2</u>	<u>1,370.9</u>

See accompanying notes.

Consolidated Balance Sheets

(Thousands of dollars)

	As at March 31, 2003 (Unaudited)	As at December 31, 2002 (Audited)
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	1,116.2	1,718.2
Short-term investments	20,926.3	22,294.3
Accounts receivable	852.3	1,251.6
Research and development tax credits receivable	745.1	568.3
Prepays and other assets	224.2	426.8
	<u>23,864.1</u>	<u>26,259.2</u>
Property, plant and equipment	3,211.0	2,020.0
Intangible assets	1,946.4	1,944.2
Long-term investments	2,892.2	8,468.1
	<u>31,913.7</u>	<u>38,691.5</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	5,028.9	3,923.9
Deferred revenue	39.0	117.0
Current portion of obligations under capital leases	8.0	7.8
	<u>5,075.9</u>	<u>4,048.7</u>
Obligations under capital leases	11.5	13.5
	<u>5,087.4</u>	<u>4,062.2</u>
SHAREHOLDERS' EQUITY		
Capital stock [note 4]	88,028.2	88,014.4
Deficit	(61,201.9)	(53,385.1)
	<u>26,826.3</u>	<u>34,629.3</u>
	<u>31,913.7</u>	<u>38,691.5</u>

Consolidated Statements of Deficit (Unaudited)

(Thousands of dollars)

For periods of three months ended:	March 31, 2003	February 28, 2002
	\$	\$
BALANCE, beginning of period	(53,385.1)	(35,095.7)
Issuance costs of capital stock	-	(300.8)
Net loss	(7,816.8)	(4,182.0)
BALANCE, end of period	(61,201.9)	(39,578.5)

See accompanying notes.

Notes to Consolidated Financial Statements

As at March 31, 2003

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The Company, incorporated under the *Companies Act (Québec)* is specialized in the development of drugs using advanced controlled-release technologies and the development of pharmaceutical products incorporating its proprietary technologies. The Company carries on business in Canada and Ireland and substantially all of the Company's assets are located in Canada. In 2002, the Company changed its fiscal year end from February 28 to December 31. Accordingly, the consolidated statements of loss, cash flow, and deficit, for the three-month period ended March 31, 2003 are compared to the three-month period ended February 28, 2002.

The Company's strategy is to develop products internally in order to form strategic alliances or licensing agreements with national or international pharmaceutical companies that have the necessary resources and distribution networks to market and sell the pharmaceutical products incorporating the Company's proprietary technologies. To date, the Company has financed its cash requirements primarily through share issuances, investment tax credits, collaborative research contracts and interest income. The future profitability of the Company is dependent upon such factors as the success of the clinical trials, the approval by regulatory authorities of products developed by the Company and the ability of the Company to obtain the necessary financing to complete its projects through licensing and research agreements. It may be necessary for the Company to raise additional funds until profitability is achieved.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada for interim financial statements. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the ten-month period ended December 31, 2002 and the accompanying notes, included in the Company's annual report.

The accounting policies used in preparation of these interim consolidated financial statements are the same as those used in the preparation of the Company's most recent annual consolidated financial statements, and are set forth in notes 2 and 3 of the audited financial statements for the ten-month period ended December 31, 2002 included in the Company's annual report.

3. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are presented net of tax credits of \$176,804 and \$163,017 for the three-month periods ended March 31, 2003 and February 28, 2002.

4. CAPITAL STOCK

Authorized

Unlimited number of preferred shares, non-participating, non-voting, without par value
Unlimited number of common shares, voting, without par value

Issued

31,062,781 common shares (December 31, 2002 – 31,058,081)

Stock option plan

The changes to the number of stock options granted by the Company and their weighted average exercise price, for the three-month period ended March 31, 2003, are as follows:

	#	\$
Balance, beginning of period	3,460,825	4.24
Granted	40,000	3.53
Exercised	(4,700)	2.93
Balance, end of period	3,496,125	4.24
Options eligible to be exercised, end of period	2,528,800	4.02

No compensation cost has been recognized for stock options granted to employees and directors during the three-month period ended March 31, 2003. Pro forma information regarding net loss has been determined as if the Company had accounted for stock options granted under the fair value method.

The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions; volatility factor of the expected market price of the Company's common shares of 0.90 (2002 - 0.94); a risk-free interest rate of 4.0% (2002 - 3.5%); an expected life of the options of 4 years (2002 - 3.4 years); and a dividend yield of nil. The weighted average fair-value of stock options granted during the three-month period ended March 31, 2003 under the Black-Scholes option pricing model and the above assumptions amounted to \$2.34 (2002 -\$1.91) per option.

Had compensation cost been determined based on the fair value at the date of grant of the options granted, the fair value of the options would have been amortized over the vesting period of the options and the Company's net loss and basic and diluted loss per share for the three-month period ended March 31, 2003 would have been amended as follows:

	Three-months ended March 31, 2003	
		\$
Net loss	As reported	(7,816,803)
	Pro forma	(8,040,867)
Basic and diluted loss per share	As reported	(0.25)
	Pro forma	(0.26)

5. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation in the current period.

General Information

Officers

Donald Buxton
Chairman of the Board (Non-Executive)

James R. Howard-Tripp
President and Chief Executive Officer

Sylvie Bouchard, MD, PhD.
Vice-President, Clinical Development

Lisane Dostie, LLB
General Counsel and Corporate Secretary

Allan Mandelzys, PhD., MBA
Vice-President, Business Development

Damon Smith, BSc., PhD.
Vice-President, Research and Development

Warren Whitehead, CMA
Chief Financial Officer

Investor Relations

Warren Whitehead, CMA
Chief Financial Officer
Telephone: (450) 680-2423
Fax: (450) 686-9141
wwhitehead@labopharm.com

Jason Hogan
Telephone: (416) 815-0700
Fax: (416) 815-0080
jhogan@equicomgroup.com

Labopharm Inc.

480 Armand-Frappier Blvd.
Laval, Quebec H7V 4B4
Telephone: (450) 686-1017
Fax: (450) 686-9141
www.labopharm.com
info@labopharm.com

All amounts in this report are in Canadian dollars, unless otherwise stated.