

Quarterly Report

First Quarter - Fiscal 2005

Q1

PRESIDENT'S MESSAGE TO SHAREHOLDERS

FELLOW SHAREHOLDERS:

The first quarter of 2005 was a defining period for Labopharm. We received regulatory approval in France for our first product, once-daily tramadol. Our product was approved with a once-daily designation for the treatment of moderate to severe pain, including both acute and chronic conditions, in a dose range from 100 to 400 mg per day. That event allowed us to take two additional steps in our global commercialization program for once-daily tramadol: initiation of the Mutual Recognition Procedure (MRP) for Europe; and initiation of the regulatory process for other key markets throughout the world. In addition, regulatory approval in France triggered several milestone payments in accordance with our licensing and distribution agreements with our European partners. These payments contributed \$3.7 million to our cash position.

A GROWING OPPORTUNITY IN EUROPE

The European market for tramadol continues to grow. Sales of tramadol products in Europe for 2004 increased by 18% year-over-year to more than US\$612 million. Over the last five years, sales have doubled, with growth of 19% on a compound annual basis. In France, the largest European market for tramadol, 2004 sales grew by 33% year-over-year to US\$164 million. Over the past five years, the French market has grown at 27% on a compound annual basis.

MOVING CLOSER TO COMMERCIALIZATION

Our once-daily tramadol product is now well into the MRP process, which facilitates rapid approval across the European Union by requesting that Member States acknowledge the approval of the Reference Member State – in this case, France. Our MRP submission covers 27 countries and we expect to see national approvals beginning late in the third quarter or early in the fourth quarter.

We have made considerable progress with our European launch preparations and are continuing to work closely with our partners. We have established our supply chain, including commercial manufacturing capability. In May, we held the first of our medical marketing meetings with our partners, where we worked toward the finalization of details around such aspects of commercialization as product positioning and launch activities. Throughout the remainder of the year we will be very active presenting data from our clinical studies at conferences, and in medical publications, to support the launch of our product.

A TRULY GLOBAL OPPORTUNITY

As part of our global commercialization plan for once-daily tramadol we are pursuing regulatory approval in sizable markets outside Europe and the United States. These include Latin America, Australia and Southeast Asia. We are completing regulatory applications for these regions based on our French approval and, during the first quarter, submitted in Mexico, the ninth largest pharmaceutical market in the world. We have also initiated discussions with potential partners in these markets with the intention of launching our product as rapidly as possible.

U.S. PHASE III CLINICAL TRIAL PROGRESSING TOWARD COMPLETION

In the United States, our Phase III clinical trial for once-daily tramadol continues to progress well as we pursue regulatory approval in the world's largest tramadol market. Concluding a partnership with a leading pharmaceutical company to share sales and marketing responsibilities for our product in the U.S. remains a top priority and we are working diligently toward this end.

LONG-TERM SAFETY STUDIES

I am pleased to report that the data from two studies to assess the long-term safety of our once-daily tramadol product were presented in a poster at the International Forum on Pain Medicine in Sofia, Bulgaria in May. The studies, which consisted of approximately 500 patients treated for six months and approximately 250 patients treated for 12 months, provide support that our once-daily tramadol product is safe, particularly over longer duration treatment and at the highest strength used in the studies.

ADVANCING OTHER PRODUCT DEVELOPMENT PROGRAMS

While our primary focus is the commercial launch of once-daily tramadol, we are continuing to advance our development programs for other key products in our pipeline. During the first quarter, we completed clinical trial batch manufacturing for our DDS-2001 product in preparation for initiating the clinical phase of development in the second quarter. We also completed clinical trial batch manufacturing for once-daily betahistine in preparation for taking that product to the next stage of clinical development. And, most importantly, we commenced the clinical phase of development for our once-daily trazodone product with the initiation of the first human pharmacokinetic study.

2005 AND BEYOND: A REWARDING TIME AHEAD

2005 is unfolding on plan and we look forward to achieving a number of milestones that will take our Company to the next level. With the launch of our once-daily tramadol product throughout Europe we will generate our first commercial revenue. We will build upon our European launch with commercialization of our product in other key markets around the world. In the U.S., we anticipate completing the clinical component of our regulatory filing for once-daily tramadol and submitting our New Drug Application (NDA) as rapidly as possible. To this end, we are compiling our NDA as our Phase III trial progresses. Finally, we will follow on the success of once-daily tramadol by continuing to leverage our proven development engine to drive other product candidates through to commercialization.

Yours truly,

(signed)

James R. Howard-Tripp
President and Chief Executive Officer
May 5, 2005

MANAGEMENT'S DISCUSSION & ANALYSIS

for the three-month period ended March 31, 2005

The following information should be read in conjunction with our unaudited interim consolidated financial statements as at March 31, 2005, and related notes thereto as well as the audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2004. Our unaudited consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. The Management's Discussion and Analysis provides a review of the performance of the Company for the quarter ended March 31, 2005, as compared to the quarter ended March 31, 2004. This review was performed by management with information available as at May 3, 2005. Additional information relating to the Company, including its Annual Information Form, can be found on SEDAR on www.sedar.com.

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 risks and uncertainties. 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 approval process, and the commercialization of products thereafter.

Where we say "we", "us", "our", or the "Company" we mean Labopharm Inc. and its subsidiaries unless otherwise indicated. All amounts are presented in Canadian dollars unless otherwise indicated.

OVERVIEW

We are an international, specialty pharmaceutical company developing novel drug products using our proprietary drug delivery technologies. By applying our reformulation expertise and delivery technologies to existing drug compounds with proven efficacy and safety, we believe that we can accelerate drug development and lower development risk compared to traditional pharmaceutical and biotechnology companies. We currently have a number of products at various stages of development, including our lead product, once-daily tramadol, which has been approved for marketing and sale in France and for which we are currently conducting a third Phase III trial in the U.S. We also have three other products that are in early clinical development (a once-daily formulation of betahistine, a once-daily formulation of trazodone, and DDS-2001). Our existing products are based on our proprietary technology, Contramid®, which we use to develop new branded products that improve on existing drugs by providing the benefits of controlled-release drug delivery. We believe Contramid® can be applied to a wide variety of drugs in solid

oral dosage form to improve their administration and performance. We are also developing novel polymeric nano-delivery systems for delivery of water-insoluble and poorly bio-available drugs.

Our primary focus is on the global commercialization of our once-daily tramadol product. Following our first regulatory approval in France, we have initiated the process for the Mutual Recognition Procedure (MRP) in the European Union seeking approval in an additional 27 countries and we are preparing to launch in certain European countries in the fourth quarter of this year. As part of our global commercialization strategy, we have initiated the regulatory approval process in Mexico with the submission of a marketing application (Request for Health Registration of Medicinal Products) with the Mexican regulatory authority (General Directorate for the Control of Medicinal Products and Technologies Related to Health). We plan to submit additional marketing applications in other jurisdictions around the world in the coming year. We are currently conducting a third Phase III trial in the U.S. under a Special Protocol Assessment with the Food and Drug Administration (FDA) and it is our intention to file a New Drug Application with the FDA as soon as possible after completion of the study. Securing a partnership with a leading pharmaceutical company to share sales and marketing responsibilities for our product in the U.S. remains a top priority.

Our Goal

Our goal is to become a fully integrated, international, specialty pharmaceutical company developing and commercializing our own pharmaceutical products. Full integration should maximize the value inherent in our technology and product candidates by allowing greater control over the development and commercialization process and generating higher returns on investment.

Liquidity

We have incurred substantial operating losses since our inception due in large part to expenditures for our research and development activities. As at March 31, 2005, we had an accumulated deficit of \$117.2 million. We expect our operating losses to decrease over the next several years as we will begin the commercialization of our lead product, once-daily tramadol, while continuing to advance our other product candidates and expand our development pipeline. However, our committed cash obligations and expected level of expenses for the upcoming twelve months exceed the committed sources of funds and our cash and cash equivalents on hand. Our ability to continue as a going concern is dependent upon us raising additional funds or signing new partnership agreements that would provide us with significant up-front and/or milestone payments.

Revenue

To date, we have not generated any revenue from product sales. We, however, expect to commercially launch our once-daily tramadol in Europe during 2005 thereby generating our first product sales from the commercialization of one of our products. Revenue to date has been generated primarily by our research collaboration agreements, our distribution and licensing agreements and interest income generated on excess funds. To date, we have entered into a number of research collaboration agreements for a variety of product candidates. These agreements generally include up-front fees upon initiation of the services, payments upon completion of feasibility and formulation stage of development and/or other milestones, and could include royalties upon successful commercialization of the products.

In addition, we also have entered into four distribution and license agreements and one letter of intent in Europe for once-daily tramadol. On March 3, 2005, we amended our licensing and distribution agreement with CSC Pharma to include Russia. The amendment increases the number of countries covered by the agreement to 14 Eastern European countries and Austria. The other arrangements are with Sanofi-aventis for France, with HEXAL AG for Germany, with Gruppo Angelini for Italy and with Esteve S.A. for Spain and Portugal. The terms of these arrangements may include up-front payments upon signature and additional payments upon market and/or price approval in the respective European countries. Under these arrangements we are primarily responsible for supplying finished packaged goods. We are also actively pursuing discussions with potential marketing partners for once-daily tramadol for those European countries not yet covered as well as for the U.S. and Latin American markets.

Research and Development Expenses

Our research and development expenses consist primarily of fees paid to outside parties that we use to conduct clinical studies and manufacturing process validation, salaries and related personnel expenses, laboratory supplies and costs for facilities and equipment. In the first quarter of 2005, research and development expenses declined considerably in comparison to the quarter ended March 31, 2004, due to a reduction in clinical trial activity.

CHANGE IN ACCOUNTING POLICY Consolidation of Variable Interest Entities

In June 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities* which requires consolidation of variable interest entities ("VIE") for fiscal years beginning on or after November 1, 2004. A VIE is any legal structure used to conduct activities or hold assets which are not controlled by voting interests but rather by contractual or other interests that change with that entity's underlying net asset value. AcG-15 requires the consolidation of a VIE by its primary

beneficiary, i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's expected losses. Our assessment to date indicated that the adoption of AcG-15 does not result in any change to the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies and estimates remain substantially the same as reported in our Management's Discussion & Analysis as included in our annual report for the year ended December 31, 2004.

RESULTS OF OPERATIONS Fluctuations in Operating Results

Our results of operations have fluctuated significantly from period to period in the past and are likely to do so in the future. We anticipate that our quarterly and annual results of operations will be impacted for the foreseeable future by several factors, including the timing and amount of payments received pursuant to our current and future collaborations, and the progress and timing of expenditures related to our research, development and commercialization efforts. Due to these fluctuations, we believe that the period-to-period comparisons of our operating results are not a good indication of our future performance.

Revenue

For the first quarter ended March 31, 2005, revenue amounted to \$740,000 compared to \$93,000 for the quarter ended March 31, 2004.

There was no revenue generated from research and development contracts for the quarter ended March 31, 2005 while for the quarter ended March 31, 2004, \$81,000 was derived from our agreement with Gruppo Angelini, under which we are formulating a once-daily version of the anti-depressant trazodone.

In January 2005 we received notification of regulatory approval in France for our once-daily formulation of tramadol, which triggered milestone payments totaling \$3,696,000 from Sanofi-aventis and HEXAL AG, in accordance with the terms of the licensing and distribution agreements in Europe. During the quarter, we recognized \$740,000 of licensing revenue, representing a portion of the up-front payments received from Gruppo Angelini and Esteve S.A. and a portion of the additional milestone payment received from HEXAL AG in the period. Over the next several quarters, additional milestone payments provided for, in the current licensing and distribution arrangements, are expected and should be recognized as revenue as we receive market and/or price approval or upon product launch in the various European countries. During the quarter ended March 31, 2004, we recognized \$12,000 as licensing revenue, representing a portion of the up-front payments received from Gruppo Angelini and Esteve S.A. under our license and distribution agreement for our once-daily tramadol.

Research and Development Expenses

Research and development expenses (net of tax credits) for the quarter ended March 31, 2005 were \$3,623,000 compared with \$4,974,000 for the quarter ended March 31, 2004, a decrease of \$1,351,000. The decrease in the current quarter is attributable to the timing and the cost of our clinical trial program for our once-daily tramadol product. The quarter ended March 31, 2004 included the completion of two Phase III U.S. studies and the completion of the long term safety study, while the first quarter of 2005 primarily included the costs for the current Phase III study in the U.S. The current quarter also included costs associated with the ongoing validation of the commercial manufacturing process of tramadol at a second third-party manufacturer. Our intention is to qualify and register a second manufacturer to avoid capacity and dependency issues that come with using a single manufacturer. During the current quarter, we also received a favorable ruling on our notice of objection for previous taxation years, allowing us to increase our research and development tax credits by \$360,000.

Research and development expense should increase in the next quarters compared to the quarter ended March 31, 2005, as we complete the current Phase III clinical trial in the U.S. for our once-daily formulation of tramadol and as we complete the validation of our manufacturing process at a second, third-party manufacturer, in preparation for commercial launch in Europe.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the quarter ended March 31, 2005 were \$2,475,000 compared to \$2,141,000 for the quarter ended March 31, 2004, an increase of \$334,000 or 16% due primarily to a general increase in various costs as we prepare for global commercialization of our once-daily tramadol.

Net Loss

Net loss for the quarter ended March 31, 2005 was \$5,929,000, or \$0.14 per share, compared with \$7,569,000, or \$0.21 per share, for the quarter ended March 31, 2004. The decrease in net loss is the result of an increase in licensing revenue and lower expenses related to the clinical trial program for our once-daily tramadol product, partially offset by higher selling, general and administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents, investments and accrued interest on investments totaled \$21,489,000 as at March 31, 2005. Our committed cash obligations and expected level of expenses for the upcoming twelve months exceed the committed sources of funds and our cash and cash equivalents on hand. Our ability to continue as a going concern is dependent upon raising additional financing through borrowings or equity financing, receiving funds through collaborative research contracts or product licensing agreements and achieving future profitable operations. The outcome of these matters is dependent on a number of items outside of our control. As a result, there is significant uncertainty as to whether we will have the ability to continue as a going concern. However, we expect to raise additional funds during 2005 using one or a combination of alternatives including equity financing, obtaining credit facilities, or through the receipt of up-front and milestone payments in relation to existing and additional product distribution and licensing agreements. However, there can be no assurance that we will be able to raise such capital on favourable terms, or that commercial agreements will be concluded or that we will receive payments under existing agreements.

Funds used in operating activities during the quarter ended March 31, 2005 amounted to \$3,854,000 compared to \$8,654,000 for the corresponding period last year, and were used primarily to develop our in-house product portfolio, principally our once-daily tramadol product, and for general operating purposes. The decrease of \$4,800,000 in funds used in operating activities is a direct result of (i) the decrease in net loss of \$1,640,000 during the current quarter and (ii) the licensing payments of \$3,696,000 received during the period of which \$728,000 was recognized as revenue and the remaining recorded as deferred revenue.

Funds provided from investing activities for the quarter ended March 31, 2005 amounted to \$8,318,000 compared to \$9,475,000 for the quarter ended March 31, 2004. Capital expenditures for the current quarter were \$195,000 compared to \$372,000 for the quarter ended March 31, 2004. Capital expenditures in the current quarter were principally related to our information technology infrastructure. Investment activities

QUARTERLY INFORMATION

The following selected financial information is derived from our unaudited quarterly financial statements for each of the last eight quarters, all of which cover periods of three months.

\$000s except per share data	Three months ended							
	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003	Sept. 30, 2003	June 30, 2003
Revenue ¹	740	970	238	93	93	14	8	522
Net loss	(5,929)	(6,631)	(5,895)	(7,084)	(7,569)	(9,388)	(7,889)	(8,827)
Basic and diluted net loss per share	(0.14)	(0.16)	(0.14)	(0.18)	(0.21)	(0.27)	(0.22)	(0.28)

¹ The comparative figures for revenue were reclassified to conform with the presentation in the current period.

also include the purchase and disposal of marketable securities as we invest our excess liquidity generated from previous financings, according to our investment policy.

Funds provided from financing activities amounted to \$573,000 for the quarter ended March 31, 2005 as compared to \$651,000 for the corresponding quarter of the preceding fiscal year and were primarily attributable in both periods to the exercise of options and/or warrants, offset by the repayment of capital lease obligations.

As at March 31, 2005, working capital was \$14,396,000. Accounts receivable totaled \$583,000 as at March 31, 2005 and included primarily the amount receivable for sales tax, as well as accrued interest on investments. We also had research and development tax credits receivable of \$1,340,000 which included a favorable adjustment of \$360,000 due to a positive ruling on our notice of objection filed in 2004. Accounts payable and accrued liabilities decreased from \$5,930,000 at December 31, 2004 to \$5,016,000 at March 31, 2005 due primarily to the timing of the payments of expenses related to the U.S. Phase III study associated with our once-daily tramadol product. Deferred revenue totaled \$4,732,000 as at March 31, 2005 and included (i) the portion of the payments from HEXAL AG, Gruppo Angelini and Esteve S.A. received at the signing of the distribution and license agreements for our once-daily tramadol product, which will be recognized over the terms of the respective agreements, and (ii) other payments, or portion of, from Sanofi-aventis and HEXAL AG received upon notification of regulatory approval for our once-daily tramadol product in France, which will be recognized upon reaching future milestones. Obligations under capital leases decreased in 2005 by \$46,000 to \$6,011,000 as at March 31, 2005, primarily as a result of payments made since December 31, 2004.

Cash and cash equivalents, investments and accrued interest on investments totaled \$21,489,000 as at March 31, 2005 compared to \$25,101,000 as at December 31, 2004, a \$3,612,000 decrease, primarily as a result of funds applied to operating activities during the current quarter, net of the milestone payments received in the period. Our investment policy regulates our investment activities relating to cash resources. We invest in liquid, high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of expenditures for continuing operations. As at March 31, 2005, our unrestricted cash was invested in eight governmental agencies and five major Canadian companies in amounts ranging from \$433,000 to \$2,500,000.

Off-Balance Sheet Arrangements

To date, we have not had any relationships with unconsolidated entities or financial partnerships, such as entities referred to as structured finance or special purpose entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

OUTSTANDING SHARE DATA

The number of common shares outstanding as of May 3, 2005 is 42,786,330 and has increased by 10,000 since March 31, 2005 due to the exercise of stock options. The number of options outstanding as of May 3, 2005 is 3,327,075 and has increased by 229,700 since March 31, 2005, due to the grant of 239,700 options, net of the 10,000 options exercised.

On April 20, 2005, our shareholders approved an amendment to our stock option plan in order to align it with the new rules of the Toronto Stock Exchange (TSX), which enable issuers to modify any existing option plan in order to express the maximum number of securities issuable thereunder as a percentage of the issuer's issued and outstanding shares rather than a fixed number. The maximum number of common shares that are issuable under the plan shall not exceed 9.9% of our total issued and outstanding shares at any time. Furthermore, we undertook with certain institutional shareholders to consider any future options exercised pursuant to our stock option plan as options which are not available for future grants under our plan. The foregoing undertaking shall expire if such institutional shareholders cease to hold any of our shares or if shareholder approval is obtained at a duly called meeting. In addition, the number of securities issuable (or reserved for issuance) at any time and issued within any one-year period to insiders, under all security-based compensation arrangements, may not exceed 10% of our issued and outstanding securities.

QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISK

Foreign Currency Risk

We operate internationally, and a substantial portion of our expense activities and capital expenditures are in Canadian dollars, whereas our revenue (current and potential) from research contracts and licensing and distribution agreements is, and will be, primarily in U.S. dollars or Euros. A significant adverse change in foreign currency exchange rates between the Canadian dollar relative to the U.S. dollar and Euro, could have a material effect on our consolidated results of operations, financial position or cash flows. We have not hedged exposures denominated in foreign currencies, as they are not material at this time.

Interest Rate Risk

We invest our excess cash in investment-grade, interest-bearing securities. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in highly liquid and high quality marketable debt instruments of corporations, government agencies and financial institutions with maturities generally of less than two years. A significant change in interest rates could have a material effect on the fair value of our investments if these investments were not held to maturity.

OTHER RISKS AND UNCERTAINTIES

If any of the following risks occur, our business, results of operations or financial condition could be materially adversely affected.

- We have not generated significant revenue to date, and expect to continue to experience losses for at least the next two years. It is also difficult to estimate timing and future costs of our research and development programs.
- If we fail to obtain additional regulatory approvals for our product candidates under development, and in particular our lead product candidate once-daily tramadol, we will not be able to generate revenues from the commercialization of our product candidates.
- We may not achieve our projected development goals in the time frames we announce and expect.
- Rapid technological change could make our products obsolete.
- We face uncertainties related to regulatory approval which could result in delays in product development.
- Even if we obtain marketing approval, our products will be subject to ongoing regulatory review.
- Our products, if approved, may fail to achieve market acceptance.
- Development of our drug delivery systems can be costly and require years of research and development activities.
- If we cannot raise additional capital on acceptable terms, we may be unable to complete planned clinical trials, obtain regulatory approvals or commercialize our product candidates.
- If we are unable to protect our intellectual property rights, our competitors may develop and market products with similar features that may reduce demand for our products and the effective commercialization of our products may be inhibited.
- We are aware of U.S. and foreign patents owned by third parties including potential competitors that arguably cover aspects of our once-daily tramadol product. Claims by these and other companies that we infringe their proprietary technology may result in liability for damages or stop our development and commercialization efforts.
- We may become involved in lawsuits to protect or enforce our patents that would be expensive and time consuming.
- If third-party manufacturers of our products fail to devote sufficient time and resources to our concerns, or if their performance is substandard, our clinical trials and product introductions may be delayed and our costs may rise.
- We currently have a single source of supply for Contramid®.
- We may not be able to manufacture our products in commercial quantities, which would prevent us from marketing our products.
- We have no experience in selling, marketing or distributing our products and no internal capability to do so yet.
- We have and will continue to establish collaborative relationships, and those relationships may expose us to a number of risks.
- If we are unable to retain key personnel and hire additional qualified scientific, sales and marketing, and other personnel, we may not be able to successfully achieve our goals.
- We have international operations that expose us to additional business risks.
- We may not be able to successfully acquire and integrate complementary technologies or businesses needed for the development of our business and any acquisitions we make could disrupt our business and harm our financial condition.
- We may incur losses associated with foreign currency fluctuations.
- Competition in the pharmaceutical industry is intense, and if we fail to compete effectively our financial results will suffer.
- Generic pharmaceutical manufacturers will increase competition for certain products.
- Market acceptance of our products will be limited if users of our products are unable to obtain adequate reimbursement from third-party payors.
- We are subject to the risk of product liability claims, for which we may not have or be able to obtain adequate insurance coverage.
- Our products involve the use of hazardous materials, and as a result we are exposed to potential liability claims and to costs associated with complying with laws regulating hazardous waste.
- Our share price may be volatile, and an investment in our common shares could suffer a decline in value.
- Future sales of common shares by us or our existing shareholders may cause our stock price to fall.
- We have never paid dividends on our common shares, and we do not anticipate paying any cash dividends in the foreseeable future.

CERTIFICATION OF INTERIM FILINGS

I, James R. Howard-Tripp, President and Chief Executive Officer of Labopharm Inc., certify that:

1. I have reviewed the interim filings (as this term is defined in *Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*) of Labopharm Inc. (the issuer) for the interim period ending March 31, 2005;
2. Based on my knowledge, the interim filings do not contain any untrue statements of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings; and
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.

(signed)

James R. Howard-Tripp
President and Chief Executive Officer
May 3, 2005

I, Warren Whitehead, Chief Financial Officer of Labopharm Inc., certify that:

1. I have reviewed the interim filings (as this term is defined in *Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*) of Labopharm Inc. (the issuer) for the interim period ending March 31, 2005;
2. Based on my knowledge, the interim filings do not contain any untrue statements of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings; and
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.

(signed)

Warren Whitehead
Chief Financial Officer
May 3, 2005

CONSOLIDATED STATEMENTS OF LOSS

[Unaudited] [note 1]

For periods of three months ended:	March 31, 2005 \$	March 31, 2004 \$
[Thousands of dollars, except share and per share amounts]		
REVENUE		
Research and development	—	81
Licensing	740	12
	740	93
EXPENSES		
Research and development expenses, net [note 4]	3,623	4,974
Selling, general and administrative expenses	2,475	2,141
Depreciation and amortization	405	398
Interest expense	210	212
Interest income	(135)	(106)
Foreign exchange loss	91	30
	6,669	7,649
LOSS BEFORE INCOME TAXES	(5,929)	(7,556)
Income taxes:		
Current	—	13
NET LOSS FOR THE PERIOD	(5,929)	(7,569)
NET LOSS PER SHARE - BASIC AND DILUTED	(0.14)	(0.21)
Weighted average number of common shares outstanding	42,619,013	36,039,311

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited] [note 1]

For periods of three months ended:	March 31, 2005 \$	March 31, 2004 \$
[Thousands of dollars]		
OPERATING ACTIVITIES		
Net loss for the period	(5,929)	(7,569)
Items not affecting cash:		
Depreciation of property, plant and equipment	370	365
Amortization of intangible assets	35	33
Unrealized foreign exchange loss	108	—
Stock-based compensation	126	411
	(5,290)	(6,760)
Net change in non-cash operating items	1,436	(1,894)
	(3,854)	(8,654)
INVESTING ACTIVITIES		
Acquisition of investments	(1,391)	(451)
Disposals of investments	958	2,150
Maturities of investments	8,946	8,148
Acquisition of property, plant and equipment	(148)	(322)
Acquisition of intangible assets	(47)	(50)
	8,318	9,475
FINANCING ACTIVITIES		
Repayment of capital lease obligations	(46)	(41)
Proceeds from issuance of capital stock	619	692
	573	651
Foreign exchange loss on cash held in foreign currencies	(114)	—
INCREASE IN CASH AND CASH EQUIVALENTS	4,923	1,472
Cash and cash equivalents, beginning of period	2,809	720
CASH AND CASH EQUIVALENTS, END OF PERIOD	7,732	2,192
Cash flows include the following items:		
Interest paid	206	212
Income taxes paid	—	3

See accompanying notes

CONSOLIDATED BALANCE SHEETS

[Unaudited] [note 1]

	As at March 31, 2005	As at Dec. 31, 2004
	\$	\$
[Thousands of dollars]		
		[note 2]
ASSETS		
Current		
Cash and cash equivalents	7,732	2,809
Short-term investments	12,301	20,814
Accounts receivable	583	967
Research and development tax credits receivable	1,340	800
Prepays and other assets	706	247
Total current assets	22,662	25,637
Long-term investments	1,279	1,282
Property, plant and equipment	10,739	10,961
Intangible assets	2,048	2,036
	36,728	39,916
LIABILITIES		
Current		
Accounts payable and accrued liabilities	5,016	5,930
Current portion of deferred revenue	3,142	266
Current portion of obligations under capital leases	108	134
	8,266	6,330
Deferred revenue	1,590	1,510
Obligations under capital leases	5,903	5,923
	15,759	13,763
SHAREHOLDERS' EQUITY		
Capital stock [note 5]	133,277	132,658
Contributed surplus [notes 3 and 5]	4,871	4,745
Deficit	(117,179)	(111,250)
Total shareholders' equity	20,969	26,153
	36,728	39,916

See accompanying notes

CONSOLIDATED STATEMENTS OF DEFICIT

[Unaudited] [note 1]

For periods of three months ended:	March 31, 2005	March 31, 2004
	\$	\$
[Thousands of dollars]		
BALANCE, beginning of period	(111,250)	(81,095)
Adjustment for change in accounting policy [note 3]	—	(2,976)
Net loss	(5,929)	(7,569)
BALANCE, end of period	(117,179)	(91,640)

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

As at March 31, 2005 [thousands of dollars, except share and per share amounts]

NOTE 1. DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY

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, Barbados, and Ireland and substantially all of the Company's tangible assets are located in Canada. All licensing revenues have been derived from business carried on in Ireland, by the Company's subsidiary Labopharm Europe Limited, and all other revenues have been derived from business carried on in Canada. The intangible assets are jointly owned by the Company and its foreign subsidiaries.

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, licensing and distribution agreements 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, the ability of the Company to successfully market, sell and distribute its products and the ability of the Company to obtain the necessary financing to complete its projects through licensing and research agreements.

The Company has incurred significant operating losses and cash outflows from operations. As at March 31, 2005, the Company's committed cash obligations and expected level of expenses for the upcoming twelve months exceed the committed sources of funds and the Company's cash and cash equivalents on hand. The ability of the Company to continue as a going concern is dependent upon raising additional financing through borrowings or equity financing, receiving funds through collaborative research contracts or product licensing agreements and achieving future profitable operations. The outcome of these matters is dependent on a number of items outside of the Company's control. As a result, there is significant uncertainty as to whether the Company will have the ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business. These financial statements do not include any adjustments to the amounts and classification for assets and liabilities that may be necessary should the Company not be successful in its effort to obtain additional financing or receiving significant funds on signing collaborative research contracts or by out licensing its products.

NOTE 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 year ended December 31, 2004 and the accompanying notes, included in the Company's annual report. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the interim consolidated financial statements have been included.

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 consolidated financial statements for the year ended December 31, 2004 included in the Company's annual report.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

As at March 31, 2005 [thousands of dollars, except share and per share amounts]

NOTE 3. CHANGE IN ACCOUNTING POLICY

In 2003, the Canadian Institute of Chartered Accountants ("CICA") amended its pronouncement relating to stock-based compensation requiring companies to measure and expense all equity instruments awarded to employees and directors starting in fiscal years beginning on or after January 1, 2004 in accordance with the fair value method. The fair value of stock options to employees and directors is determined at the date of grant using the Black-Scholes option pricing model, and expensed over the vesting period of the options. The transitional provisions provide for a prospective treatment to this change in accounting policy for those companies who adopt this new pronouncement in fiscal years beginning before January 1, 2004 and a retroactive treatment for those companies adopting on or after January 1, 2004.

Effective January 1, 2004, the Company adopted the retroactive treatment without restatement, for options granted since March 1, 2002. Consequently, the opening deficit and contributed surplus balances as at January 1, 2004 increased by \$2,976. The compensation expense for the three-month period ended March 31, 2005 was \$126 of which \$52 were included in research and development expenses and of which \$74 were included in selling, general and administrative expenses. The compensation expense charged against income was \$411 for the three-month period ended March 31, 2004, of which \$162 were included in research and development expenses and of which \$249 were included in selling, general and administrative expenses. The counterpart has been recorded as contributed surplus. Prior to January 1, 2004, no compensation expense was recognized when stock options were granted to employees and directors, however the Company provided pro forma information as if the fair value method had been applied.

NOTE 4. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are presented net of tax credits of \$540 and \$200 for the three-month periods ended March 31, 2005 and 2004 respectively.

NOTE 5. 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

42,776,330 common shares [December 31, 2004 – 42,510,630]

Capital Stock Transactions

During the three-month period ended March 31, 2005, 265,700 [2004 – 152,900] options were exercised for a total cash consideration of \$619 [2004 – \$332]. For options exercised which were granted after March 1, 2002, capital stock was increased by nil [2004 – \$4] and contributed surplus reduced by the same amount to consider compensation expense recorded.

Warrants

During the three-month period ended March 31, 2004, 180,000 warrants were exercised for a total of 180,000 shares for a total cash consideration of \$360. As at December 31, 2004 and March 31, 2005, no warrants were outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

As at March 31, 2005 [thousands of dollars, except share and per share amounts]

Stock Option Plan

The changes to the number of stock options granted by the Company and their weighted average exercise prices, for the three-month period ended March 31, 2005, are as follows:

	#	\$
Balance, beginning of period	3,363,475	5.01
Exercised	(265,700)	2.33
Forfeited	(400)	7.92
Balance, end of period	3,097,375	5.24
Options eligible to be exercised	2,878,475	5.11

A compensation expense of \$126 and \$411 has been recognized during the three-month periods ended March 31, 2005 and 2004 respectively, for stock options granted to employees and directors since March 1, 2002 [note 3].

The fair value of options granted in the three-month period ended March 31, 2004 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	For the three-month period ended March 31, 2004
Expected volatility	0.75
Expected life	4.0 years
Risk-free interest rate	3.32%
Dividend yield	Nil

The weighted average fair value of stock options granted during the three-month period ended March 31, 2004 using the above assumptions amounted to \$4.25. No options were granted during the three-month period ended March 31, 2005.

NOTE 6. COMPARATIVE FIGURES

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

NOTE 7. SUBSEQUENT EVENT

On April 20, 2005, the Company's stock option plan was amended in order to express the maximum number of securities issuable thereunder as a percentage of the Company's issued and outstanding shares rather than a fixed number. The maximum number of common shares that are issuable under the plan shall not exceed 9.9% of the Company's total issued and outstanding shares at any time.

GENERAL INFORMATION

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Chairman of the Board (Non-Executive)

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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
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