
Labopharm Inc.

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• QUARTERLY REPORT 2001 •

Q2

Message to Shareholders

Second Quarter, Fiscal 2001

The second quarter of Fiscal 2001 has seen Labopharm pursue its strategy of becoming a forward integrated company with vigour. A financing, two new partnerships with Aventis, progression of our programs, on schedule, and the addition of key management will clearly contribute to the achievement of our goals.

Several key building blocks are now in place. Our two important new agreements with Aventis means that four of the five major products in Labopharm's portfolio are now partnered with key pharmaceutical companies. The private placement we have just completed has increased our cash position, which, along with the revenue stream generated from our partnerships, will fund the development of our in-house portfolio and continue the expansion of our scientific base.



JAMES R. HOWARD-TRIPP
PRESIDENT AND CEO



We anticipate that our burn rate in the coming year should not increase, despite the active development of our product portfolio, as our revenues are keeping pace with R & D expenditures.

Private Placement - \$12 million

In late August, Labopharm completed a private placement of special warrants for \$12 million with Canadian investors. The issue price for the offering was \$3.05 per special warrant. Research Capital Corporation was the agent for the special warrants financing.

Two Agreements with Aventis

The Company also signed two agreements with Aventis, one of the world's top five pharmaceutical companies, for our proprietary controlled drug release technology, Contramid®. The first involves two new formulations of a

top selling product with better than average growth potential in a multi-billion dollar market for which Labopharm will receive payment in addition to a success fee. Dependent upon the successful development of the new formulations, Aventis may exercise its option under which we would grant Aventis an exclusive license to the newly formulated products. The second agreement, signed after the close of the quarter with the Aventis group, is for the development of new formulations of another major product in a multi-billion dollar global market.

Research

In the second quarter, Labopharm remained focused on its core strategy to pursue partnerships and move its clinical trial program forward on all fronts. We currently have five major programs in development, four with partners and one in-house.

The joint-development agreement with Sepracor for the NCE, Levalbuterol, an oral once-a-day dosage treatment for asthma and chronic obstructive pulmonary disease (COPD) is in Phase II development. With two different units of Aventis, we have agreements

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for new formulations to extend the life-cycle of drugs in multi-billion dollar markets. The fourth program for the development of a generically equivalent form of Oxybutynin, a leading drug for the control of urinary incontinence in Phase I co-development with an international pharmaceutical company, will give Labopharm additional proof of its technology and potentially its first regulatory submission. Labopharm's in-house portfolio is focussed on a once-a-day formulation of Tramadol, a potent analgesic used for the treatment of chronic pain, in Phase I development.

Our focus going forward is to devote significant efforts to expanding our in-house portfolio. Continued collaboration with external partners will facilitate the development of Labopharm's current technologies. The revenue stream generated from these partnerships along with the additional financing recently obtained will continue to fund aggressive expansion of our product portfolio.

Appointments to Senior Management and the Board

Several important appointments have been made to the senior management team. Following

the close of the quarter, Dr. Allan Mandelzys was appointed as Vice-President of Business Development. He brings to Labopharm a strong technical and business background with experience in scientific process management, technology licensing and forging collaborative alliances with multinational pharmaceutical partners.

Mr. Warren Whitehead recently joined Labopharm Inc. as Interim Chief Financial Officer. Prior to joining Labopharm, Mr. Whitehead was the Chief Financial Officer and a Director of Resolutions Pharmaceuticals. He remains a member of its Board of Directors.

Dr. Vincent Lenaerts, Vice-President of Research and Development at Labopharm, has also been named Chief Scientific Officer. Dr. Lenaerts is the co-inventor of Labopharm's core technology, Contramid®. He oversees the development of the different product candidates in Labopharm's pipeline.

The Company also welcomed a new member to the Board of Directors, Mr. Luc Cournoyer, C.A., Senior Advisor, Investments, Health and Biotechnology, of the Fonds de solidarité FTQ. He will be replacing

Mr. Jean-Denis Dubois on behalf of the Fonds. Mr. Cournoyer has been an institutional investor for the Fonds for the last 5 years. He graduated from l'École des Hautes Études Commerciales de Montréal (HEC) and has been a member of the Quebec Order of Chartered Accountants since 1987.

Financial Results

For the second quarter ended August 31, 2000, operating revenue rose to \$488,200, compared to \$248,700 for the same period last year. Research and development contracts generated \$435,900 compared to \$150,000 for the same quarter last year, reflecting our new partnership with Aventis, for which laboratory work has already started. This increase is also due to the continuation of Labopharm's work with Sepracor. Interest revenue was \$52,300 in the second quarter, compared to \$98,700 for the same period last year. For the first six months, revenues amounted to \$906,300 compared to \$430,800 for the corresponding period last year, a substantial 110 % increase.

Research and development costs (net of tax credits) amounted to \$839,400 for the second

Our successful financing efforts over the past quarter will allow us to continue work on our promising in-house projects, to further refine our technology and to continue to strengthen our scientific resources.

quarter this year, totalling \$1,711,000 for the first six months, representing a 33% increase over the same period last year. This increase is due mainly to an increase in the number of clinical trials, from one last year, to four this year. It is also due to an increase in laboratory staff to meet the needs of clients as well as to the purchase of clinical supplies related to the four trials presently in progress.

General and administrative expenses were 14% higher during the second quarter of fiscal 2001. Following our new special warrants issue for which extra costs were incurred, expenses rose to \$728,900 from \$633,700 for the same period of the last fiscal year. These costs should be absorbed over the next six months by a decline in Labopharm's general and administrative expenses.

The net loss amounted to \$1,081,700 in the second quarter, compared to \$1,047,500 for the same period last year. For the first six months, the net loss increased 1.9% to \$2,112,300 compared to \$2,072,600 a year earlier. This slight variation is mainly due to an increase in research and development costs.

Labopharm's cash and cash equivalents rose by \$9,065,300 for the first six months this year compared to a reduction of \$4,249,600 for the same period last year. This positive variance reflects the net \$11 million obtained through the new special warrants issue. The

burn rate was \$2,074,600 for the first six months of fiscal 2001 compared to \$4,249,600 for the same period last year. The total cash position as at August 31, 2000, amounts to \$14,541,300.

Outlook

Labopharm will continue to aggressively pursue licensing agreements and partnerships with leading pharmaceutical companies around the world to either extend the life cycle of existing drugs or to enhance the effectiveness of new chemical entities. Our successful financing efforts over the past quarter will allow us to continue work on our promising in-house projects, to further refine our technology and to continue to strengthen our scientific resources. Developments over the past quarter have positioned the Company well for future growth.

Laval, October 17, 2000



James R. Howard-Tripp
President and CEO

Labopharm & Aventis Conclude Two Agreements

Aventis

Aventis is a world leader in life sciences. It was launched in December 1999 through the merger of Hoechst AG of Germany and of Rhône-Poulenc SA of France. For the first half of fiscal 2000, it recorded global pharmaceutical sales of euro \$7.8 billion.

Feasibility and Formulation Agreement

Labopharm announced on August 9, 2000 the signing of a feasibility and formulation agreement with Aventis, calling for the use of Labopharm's proprietary controlled drug release technology, Contramid®. The agreement involves the development of two new formulations of a top selling product with better than average growth potential in a multi-billion-dollar market. Dependent upon the successful development of the new formulations, the parties may execute a licensing agreement under which Labopharm would grant to Aventis an exclusive option to license the newly formulated product.

"This agreement represents an increasing trend on the part of large pharmaceutical firms to use drug delivery systems to add value to their products," stated James R. Howard-Tripp, Labopharm's President and CEO. "This is a significant breakthrough for Labopharm and our Contramid® technology. The industry has shown great interest in our technology in the past, for the improvements that Contramid® can bring to products in terms of therapeutic efficacy. I believe the

confidence shown by Aventis will excite even greater interest in the future," he added.

Second Agreement Concluded

The Company announced on September 12, 2000 the signing of a second Aventis agreement, this time with another company in the Aventis group. This agreement is for the development of new formulations of a major product in a multi-billion dollar global market. Under the agreement Aventis will transfer the active ingredient to Labopharm with the objective of developing two new formulations with improved properties. Work will be initiated immediately. For competitive reasons the name of the drug cannot be identified.

"This is our second important agreement with two different units of Aventis," said James R. Howard-Tripp, President and CEO of Labopharm. "The fact that they wish us to begin formulation as rapidly as possible demonstrates, we believe, a confidence in the potential of our technology and a real desire to see the project advance quickly," he added.

Appointments

Allan Mandelzys, Ph.D., MBA

Vice-President, Business Development

Dr. Mandelzys brings broad experience in managing research activities, generating revenue, negotiating key alliances and technology licensing agreements from his previous position as the Director of Business Development at Allelix BioPharmaceuticals Inc. With a doctorate in Physiology and an MBA in International Business and Finance, Dr. Mandelzys is very well positioned to undertake the challenge of expanding Labopharm's network of strategic partnerships and alliances.

Warren Whitehead, CMA

Interim Chief Financial Officer

Mr. Warren Whitehead recently joined Labopharm as Interim Chief Financial Officer. He holds a CMA from the Society of Management Accountants of Ontario and an MBA and Bachelor of Commerce from the University of Windsor. Prior to joining Labopharm, Mr. Whitehead was the Chief Financial Officer and a Director of Resolutions Pharmaceuticals, and remains a member of their Board of Directors. He also had experience at Glaxo Wellcome Inc. in business development and financial roles.

Vincent Lenaerts, Ph.D.

Chief Scientific Officer

Vice-President, Research and Development

Dr. Vincent Lenaerts, Vice-President of Research and Development at Labopharm, has also been named Chief Scientific Officer. Dr. Lenaerts is the co-inventor of Labopharm's core technology, Contramid®. He is well known in the industry both in North America and Europe and is an acknowledged international authority in controlled drug release technology. Dr. Lenaerts was part of the university research team that was awarded the 1999 J.-Armand-Bombardier Prize by ACFAS (French Canadian Association for the Advancement of Science) for its work on controlled-release technology. He oversees the development of Labopharm's core technology, Contramid®, as well as the different product candidates in Labopharm's pipeline including R-Albuterol, Tramadol, Oxybutynin and the two projects with Aventis.

Labopharm Completes \$12 million Private Placement

The Company announced on August 31, 2000 the completion of a private placement of special warrants for \$12 million with Canadian investors. Issue price for the offering was \$3.05 per special warrant. The special warrants will convert on a one-to-one basis into common shares. Research Capital Corporation is the agent for the special warrant financing.

Proceeds from the placement will be used to fund aggressive development and expansion of Labopharm's product portfolio. This will include development of internal programs as well as licensing and/or acquisition of products. The Company's strategy is to continue working with the research based industry on product life-cycle management and on new chemical entities as well as on the development of in-house products.

EARNINGS *(unaudited)*

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

For period of:	3 months ending Aug. 31		6 months ending Aug. 31	
	2000	1999	2000	1999
Operating revenue				
Research and development contracts	\$ 435.9	\$ 150.0	\$ 791.0	\$ 200.0
Investment income	52.3	98.7	115.3	230.8
	488.2	248.7	906.3	430.8
Operating expenses				
Research and development expenses	839.4	659.1	1,711.0	1,282.6
Selling and administrative expenses	728.9	633.7	1,304.1	1,212.6
Finance charges	1.6	3.4	3.5	8.2
	1,569.9	1,296.2	3,018.6	2,503.4
Net loss	\$ (1,081.7)	\$ (1,047.5)	\$ (2,112.3)	\$ (2,072.6)
Net loss per share*	\$ (0.0534)	\$ (0.0523)	\$ (0.1046)	\$ (0.1043)
*Weighted average number of common shares outstanding				
	20,262,981	20,016,681	20,188,387	19,866,681
Amortization for the period is:	\$ 80.1	\$ 85.0	\$ 164.0	\$ 169.8

BALANCE SHEET *(unaudited)*

(Thousands of dollars)

As at August 31

	2000	1999
Assets		
Current assets	\$ 16,076.9	\$ 9,044.0
Property, plant and equipment	1,002.5	1,098.0
Intangible assets	1,159.4	871.3
Deferred income taxes	176.2	176.2
	\$ 18,415.0	\$ 11,189.5
Liabilities		
Current liabilities	\$ 625.1	\$ 1,047.5
Capital lease obligations	36.1	84.8
	661.2	1,132.3
Shareholders' equity	17,753.8	10,057.2
	\$ 18,415.0	\$ 11,189.5

CASH FLOWS *(unaudited)*

(Thousands of dollars)

For period of:	3 months ending Aug. 31		6 months ending Aug. 31	
	2000	1999	2000	1999
Operating activities				
Net loss	\$ (1,081.7)	\$ (1,047.5)	\$ (2,112.3)	\$ (2,072.6)
Items not affecting cash:				
Amortization	80.1	85.0	164.0	169.8
Loss on disposal of capital assets	5.8	-	5.8	6.3
	(995.8)	(962.5)	(1,942.5)	(1,896.5)
Net change in non-cash operating working capital items	(563.7)	(1,189.7)	(153.4)	(2,043.5)
	(1,559.5)	(2,152.2)	(2,095.9)	(3,940.0)
Investing activities				
Acquisition of temporary investments	-	(26.9)	(567.4)	(26.9)
Proceeds of temporary investments	1,509.4	1,914.7	2,539.9	3,909.6
Acquisition of property, plant and equipment	(41.7)	(45.0)	(72.3)	(129.8)
Acquisition of intangible assets	(119.1)	(35.2)	(167.2)	(64.9)
Proceeds from disposal of capital assets	0.1	-	0.1	12.0
	1,348.7	1,807.6	1,733.1	3,700.0
Financing activities				
Reimbursement of capital lease obligations	(1.3)	(57.5)	(22.9)	(126.9)
Capital lease obligation	37.3	-	37.3	-
Proceeds from issuance of capital stock	-	-	246.3	-
Proceeds from issuance of warrants	12,000.2	-	12,000.2	-
Warrants issue expenses	(860.3)	-	(860.3)	-
	11,175.9	(57.5)	11,400.6	(126.9)
Increase (decrease) in cash and cash equivalents	10,965.1	(402.1)	11,037.8	(366.9)
Cash at beginning	321.4	552.7	248.7	517.5
Cash at end	\$ 11,286.5	\$ 150.6	\$ 11,286.5	\$ 150.6

Officers

Donald Buxton

Chairman of the Board

James R. Howard-Tripp

President and CEO

Vincent Lenaerts

Chief Scientific Officer

Vice-President, Research and Development

Allan Mandelzys

Vice-President

Business Development

Warren Whitehead

Interim Chief Financial Officer

M^e Lisane Dostie

Director

Corporate Affairs and Secretary

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President and CEO

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