

Second Quarter – Fiscal 2002

Q2



Labopharm



## Shorter development timelines

“Our corporate priorities have a singular focus – to bring our products to market in the shortest timeframe possible.”

## Faster market penetration

“We have five products with the potential for market entry within the next 2–3 years.”

## Lower development costs

“Our potential products are often drugs that are already on the market, to which we add new drug delivery profiles.”

## President's Message to Shareholders

Second Quarter – Fiscal 2002



In the second quarter of fiscal 2002, ended August 31, 2001, Labopharm made significant progress on its growth strategy and laid the groundwork for several subsequent corporate developments.

During the quarter, we prepared the way for a number of key achievements including a breakthrough global licensing agreement with Aventis that is expected to lead to significant future revenues for the Company. Additionally, the \$27 million bought deal financing that was recently announced will help to accelerate the Company's research and development projects as well as fund other key ongoing strategic initiatives during 2002 and beyond.

We have also reported progress on another Aventis project we are undertaking as well as encouraging developments on an in-house project, Contramid® Tramadol.

Additionally, subsequent to the end of the second quarter, Labopharm was added to the TSE's 300 Composite Index, a development that we believe will expand our shareholder base.

### **Aventis Projects**

The global licensing agreement, signed on September 18, 2001, with Aventis and another undisclosed pharmaceutical company, is aimed at developing new formulations for one of Aventis' core strategic brands, incorporating Labopharm's Contramid® controlled-release technology.

The unnamed brand had global annual sales for the year 2000 in excess of US\$650 million. Under the agreement, Labopharm will receive milestone payments following the successful completion of clinical studies, and royalty payments on product sales for the newly formulated products. We have also granted exclusive rights to Aventis and the other pharmaceutical company to use our technology in a defined therapeutic area. In return, Labopharm has obtained the right to formulate additional development compounds for Aventis and the other firm.

In our other project with Aventis, designated as Aventis Product #1, work has progressed well, with manufacturing and technical transfer under way. Negotiations to conclude a global licensing agreement for this project should be completed within the coming months.

Pivotal studies are proceeding on schedule in the Contramid® Tramadol project. NDA filings are anticipated for the second half of 2002 in Europe and for the second half of 2003 in the US. Tramadol, a drug for chronic pain, generates worldwide sales of approximately US\$1 billion.

### **New Board Member**

After the close of the quarter, Labopharm also welcomed Mr. Jacques Roy, Vice-President, Business Development at ABB Inc., as a new member of the Board. Mr. Roy's appointment took effect on September 28, 2001. He replaces Mr. Luc Cournoyer, Senior Investment Advisor, Health and Biotechnology, of the Fonds de Solidarité FTQ, to whom the Board extends its sincere thanks for his contribution during his tenure.

### **Financial Results**

For the second quarter ended August 31, 2001, revenue was \$224,800, compared to \$488,200 for the same period last year while revenue for the first half was \$409,900 compared to \$906,300 in the same period last year. Revenue in the first half of the previous fiscal year reflected a payment of \$500,000 from Sepracor for the completion of Phase II trials on oral Levalbuterol. Interest income was \$166,700 in the second quarter of fiscal 2002, compared to \$52,300 for the same period last year. For the first six months of 2002, interest income amounted to \$351,800 compared to \$115,300 for the same period in 2001. The increase was primarily due to increased cash balances resulting from a \$12-million private placement in the second quarter of the last fiscal year.

Research and development costs (net of tax credits) amounted to \$1.4 million for the second quarter this year, compared to \$839,400 for the same period last year. For the first half of fiscal 2002, R&D costs were \$2.1 million compared to \$1.7 million in 2001, reflecting an intensification of clinical trials at a later stage of development.

Selling, general and administrative expenses were \$960,500 for the second quarter compared to \$728,900 for the same period last year reflecting the cost of a market analysis on the Company's product portfolio potential as well as a full complement of staff to meet the Company's increased needs in clinical development and licensing activity. Selling and administrative expenses for the first six months were \$1.7 million compared to \$1.3 million for the same period a year earlier.

The Company's net loss was \$2.1 million in the second quarter, compared to \$1.1 million for the same period last year. For the first six months of the current fiscal year, the net loss was \$3.4 million compared to \$2.1 million a year earlier. For the second quarter, the loss per share was \$0.09 compared to \$0.05 for the same period last year. For the first half, the loss per share was \$0.14 compared to \$0.10 the previous year.

Labopharm's liquidity at the end of the second quarter was \$10.3 million including cash and investments compared to \$14.5 million for the same period last year.

The burn rate for the first six months of the current fiscal year was \$2.8 million compared to \$2.1 million for the same period last year. The increase reflected Labopharm's intensified product development and higher operating expenses consistent with the Company's operational build-up.

### **Future Outlook**

With the new financing we will accelerate development of our current projects with the clear intent of getting our first product into the market as soon as possible. Additionally, we will now accelerate the acquisition and development of complementary drug delivery technologies or potential new products as opportunities arise.

October 21, 2001

A handwritten signature in black ink, appearing to read "Jim Howard-Tripp". The signature is stylized and cursive, with a large initial "J" and "H".

James R. Howard-Tripp  
President and CEO

## Post Quarter Events

### Global Licensing Agreement with Aventis Pharma and an Undisclosed Pharmaceutical Company

- Significant revenues in the foreseeable future
- New formulation of a drug in a multi-billion dollar market
- Branded product had global annual sales in excess of US\$650 million in 2000
- Milestone payments following the successful completion of clinical trials as well as royalties on sales
- Agreement lasts for life of patents
- Right to formulate further development compounds for Aventis and other company
- Aventis and the other company obtain exclusive licenses to utilize Labopharm's Contramid® technology in a specific therapeutic area
- Clinical studies to begin within next three months

### Labopharm Joins TSE 300 Composite Index

- Labopharm's shares added to the TSE 300 Capped and Composite Indices, October 11, 2001
- Labopharm now included in the Consumer Products group and the Biotech/Pharma subgroup
- Company now added to the S&P/TSE Small Cap Index in the Health Care sector

### \$27 Million Bought Deal Financing

- 4,000,000 Common Shares at a price of \$6.75 per Common Share, representing an aggregate amount of issue of \$27,000,000
- An agreement with a syndicate of underwriters led by Research Capital Corporation, and including CIBC World Markets Inc., National Bank Financial Inc. and TD Securities Inc.
- Underwriters option to increase the amount of the Offering by up to 1,200,000 Common Shares at the issue price, for aggregate gross proceeds of up to \$35,100,000
- Over-allotment option to purchase up to an additional 15% of the issue
- Closing is expected on or about November 8, 2001

## Statements of Income (unaudited)

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

For periods of:	3 months ended August 31		6 months ended August 31	
	2001	2000	2001	2000
	\$	\$	\$	\$
<b>Operating revenue</b>				
Research and development contracts	58.1	435.9	58.1	791.0
Investment income	166.7	52.3	351.8	115.3
	<b>224.8</b>	<b>488.2</b>	<b>409.9</b>	<b>906.3</b>
<b>Operating expenses</b>				
Research and development expenses (note 2)	1,397.1	839.4	2,124.6	1,711.0
Selling and administrative expenses	960.5	728.9	1,652.0	1,304.1
Finance charges	2.5	1.6	5.3	3.5
	<b>2,360.1</b>	<b>1,569.9</b>	<b>3,781.9</b>	<b>3,018.6</b>
<b>Net loss</b>	<b>(2,135.3)</b>	<b>(1,081.7)</b>	<b>(3,372.0)</b>	<b>(2,112.3)</b>
<b>Net loss per share*</b>	<b>(0.0879)</b>	<b>(0.0534)</b>	<b>(0.1390)</b>	<b>(0.1046)</b>
<b>* Weighted average number of common shares outstanding</b>	<b>24,297,777</b>	<b>20,262,981</b>	<b>24,254,314</b>	<b>20,188,387</b>
<b>Amortization for the period is:</b>	<b>84.0</b>	<b>80.1</b>	<b>160.4</b>	<b>164.0</b>

## Statements of Cash Flows (unaudited)

(Thousands of dollars)

For periods of:	3 months ended August 31		6 months ended August 31	
	2001	2000	2001	2000
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss	(2,135.3)	(1,081.7)	(3,372.0)	(2,112.3)
Items not affecting cash				
Amortization	84.0	80.1	160.4	164.0
Loss on disposal of capital assets	—	5.8	—	5.8
	<b>(2,051.3)</b>	<b>(995.8)</b>	<b>(3,211.6)</b>	<b>(1,942.5)</b>
Net change in non-cash working capital items	<b>78.4</b>	<b>(563.7)</b>	<b>309.0</b>	<b>(153.4)</b>
	<b>(1,972.9)</b>	<b>(1,559.5)</b>	<b>(2,902.6)</b>	<b>(2,095.9)</b>
<b>Investing activities</b>				
Acquisition of temporary investments	—	—	—	(567.4)
Proceeds of temporary investments	1,833.5	1,509.4	2,727.2	2,539.9
Acquisition of capital assets	(207.5)	(123.5)	(391.1)	(202.2)
Proceeds from disposal of capital assets	—	0.1	—	0.1
	<b>1,626.0</b>	<b>1,386.0</b>	<b>2,336.1</b>	<b>1,770.4</b>
<b>Financing activities</b>				
Reimbursement of capital leases obligations	(1.5)	(1.3)	(3.0)	(22.9)
Proceeds from issuance of capital stock	499.1	—	521.1	246.3
Proceeds from issuance of warrants	—	12,000.2	—	12,000.2
Issuance costs of warrants	—	(860.3)	(7.5)	(860.3)
	<b>497.6</b>	<b>11,138.6</b>	<b>510.6</b>	<b>11,363.3</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>150.7</b>	<b>10,965.1</b>	<b>(55.9)</b>	<b>11,037.8</b>
Cash, beginning of period	50.5	321.4	257.1	248.7
<b>Cash, end of period</b>	<b>201.2</b>	<b>11,286.5</b>	<b>201.2</b>	<b>11,286.5</b>

## Balance Sheets

(Thousands of dollars)

As at Aug. 31

As at Feb. 28

(Unaudited)

(Audited)

2001

2001

	\$	\$
<b>Assets</b>		
Current assets		
Cash	201.2	257.1
Temporary investments	4,974.0	4,981.0
Accounts receivable	440.1	864.6
Tax credits receivable on research and development	859.2	608.4
Prepaid expenses	55.3	16.7
	<u>6,529.8</u>	<u>6,727.8</u>
Capital assets		
Investments	2,637.6	2,406.9
Future income taxes	5,138.0	7,858.1
	176.2	176.2
	<u>14,481.6</u>	<u>17,169.0</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	1,324.8	1,150.8
Current portion of obligations under capital leases	6.5	6.1
	<u>1,331.3</u>	<u>1,156.9</u>
Obligations under capital leases	23.7	27.1
	<u>1,355.0</u>	<u>1,184.0</u>
<b>Shareholders' equity</b>		
Capital stock (note 3)	44,594.7	44,073.6
Deficit	<u>(31,468.1)</u>	<u>(28,088.6)</u>
	<u>13,126.6</u>	<u>15,985.0</u>
	<u>14,481.6</u>	<u>17,169.0</u>

## Statements of Deficit (unaudited)

(Thousands of dollars)

For periods of:

6 months ended August 31

	2001	2000
	\$	\$
Balance, beginning of period	(28,088.6)	(23,328.2)
Issuance costs of warrants	(7.5)	(860.3)
Net loss	(3,372.0)	(2,112.3)
<b>Balance, end of period</b>	<u>(31,468.1)</u>	<u>(26,300.8)</u>

1. Information with respect to the February 28, 2001 balance sheet is derived from the Company's audited financial statements. These interim financial statements should be read in conjunction with the Company's complete audited financial statements for the year ended February 28, 2001. These financial statements have been prepared using the same accounting principles used in the audited financial statements for the year ended February 28, 2001.

## **2. Research and development expenses**

Research and development expenses are presented net of tax credits of \$250,762 and \$292,735 for the 6 months periods ended August 31, 2001 and 2000.

## **3. Capital stock**

Authorized

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

Unlimited number of common shares, without par value

Issued: 24,377,681 common shares (February 28, 2001 – 24,207,481)

During the 6 months period ending August 31 2001, 170,200 options were exercised for \$521,149 cash (3 months, 10,000 options, \$22,032).

## **Officers**

### **Donald Buxton**

Chairman of the Board

### **Allan Mandelzys, PhD, MBA**

Vice-President, Business Development

### **James R. Howard-Tripp**

President and Chief Executive Officer

### **Warren Whitehead, CMA**

Chief Financial Officer

### **Sylvie Bouchard, MD, PhD**

Vice-President, Clinical Development

### **Me Lisane Dostie, LLB**

Director, Corporate Affairs and Secretary

### **Vincent Lenaerts, PhD**

Chief Scientific Officer, Vice-President,  
Research and Development

## **Investor Relations**

James R. Howard-Tripp

President and Chief Executive Officer

Warren Whitehead, CMA

Chief Financial Officer

## **Stock Exchange Listing**

Toronto Stock Exchange

Trading Symbol: DDS