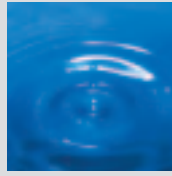


# Labopharm

Q2

Second Quarter – Fiscal 2003



Grow

Growing the Company

Drive

Driving product development

Find

Finding new opportunities

Join

Joining for the future



## President's Message to Shareholders

The second quarter of fiscal 2003 was marked by continued strong progress in advancing our lead in-house product, a once-daily version of the analgesic Tramadol, towards global commercialization. Subsequent to quarter end, we achieved a critical milestone in this process with the signing of the first marketing agreement for once-daily Tramadol in Europe with Aventis France SA, the dominant marketer of Tramadol in France. Furthermore, I am pleased to report that we recently completed the treatment stage of the Phase III study for Tramadol in Europe, well ahead of schedule.

### Key Milestones of Tramadol Program Met Ahead of Schedule

Our lead in-house program, a once-daily version of the analgesic Tramadol, continues to move ahead as planned. During the second quarter, we completed enrolment for the multi-centre, pan-European Phase III study. Following the close of the quarter, we concluded the treatment stage of the study, ahead of schedule. Data from the study is currently being analyzed and we remain on schedule to file a new drug registration dossier in Europe for once-daily Tramadol by the end of February 2003 (fourth quarter fiscal 2003), with France most likely acting as the reference member state (RMS). Approval in France would allow us to capitalize on the "mutual recognition" laws, enabling rapid acceptance across the European Union.

Subsequent to quarter end, we achieved a critical milestone in the path to commercialization for once-daily Tramadol, securing a marketing agreement for France with Aventis France SA. Not only is this agreement a validation of the potential for our once-daily Tramadol product but it further strengthens our relationship with Aventis. There is no question that Aventis France is the right partner with which to initiate the commercialization of Tramadol in Europe. France is the largest non-generic market for Tramadol in Europe and Aventis is the dominant marketer of Tramadol in France.

Under the terms of the revenue sharing agreement, we will grant Aventis France the exclusive right to market and sell once-daily Tramadol in France and related French dependencies. Through our European subsidiary, which we have renamed Labopharm Europe Limited, we will supply Aventis France with a finished packaged product. We will be responsible for obtaining regulatory and marketing approvals while Aventis France will look after pricing approval as well as the sale and marketing of the product. We continue to be in active discussion with potential marketing partners for other jurisdictions in Europe, the United States and globally. We are confident that additional agreements will be concluded shortly.

In the U.S., we will use the combined results of the European and U.S. studies to support the filing of a new drug application (NDA) with the U.S. Food and Drug Administration, which is expected in the second half of next year.

## Product Portfolio Expanded Through Agreement with MedPointe

During the quarter, we signed a Letter of Intent (LOI) with MedPointe Inc., a privately held specialty pharmaceutical company, to execute a licensing agreement under which Labopharm and MedPointe will jointly develop novel, sustained-release products. The first product, which we have named DDS-2001, has an estimated market potential of more than US\$300 million. The binding LOI with MedPointe is very comprehensive in that it not only defines the terms for feasibility and formulation, but also delineates most of the terms that will be embodied in the licensing agreement. We are very pleased by our collaboration to date. Discussions to define the breadth and scope of the agreement and worldwide commercialization plans for DDS-2001 are revealing opportunities to generate incremental value.

The agreement with MedPointe expands our pipeline to eight products, five of which are partnered programs, and moves us closer to our target of having ten products under development by the end of February 2003.

## Letter of Intent Signed with Axcan Pharma for MODULON®

Also during the quarter, we signed a Letter of Intent with Axcan Pharma Inc. to execute a global licensing agreement for the commercialization of trimebutine maleate (marketed in Canada by Axcan Pharma as MODULON®) in the U.S., Europe and other global markets. The agreement builds upon the existing relationship between our two companies under which we will develop sustained-release formulations of this product. We expect to initiate a pilot pharmacokinetic study in the third quarter of the current fiscal year.

## Other Key Developments

We continued to advance our program to develop once-daily formulations of Aventis SA's Allegra-D<sup>®</sup>. We are currently preparing for the first pharmacokinetic study, which we expect to commence in the third quarter of the current fiscal year and complete in the fourth quarter.

We strengthened our senior management team with the addition of Dr. Damon Smith as our new Vice-President, Research & Development. Dr. Smith has more than 12 years experience directing research and development programs for growth-oriented pharmaceutical companies and has taken three products from development through to commercialization.

Subsequent to quarter end, construction began on our new corporate headquarters in the Parc scientifique et de haute technologie de Laval. The facility will be built and owned by real estate developer SITQ Immobilier and we will lease the facility from SITQ under a 15-year lease. The 48,000 square-foot facility will house Labopharm's corporate offices as well as state-of-the-art laboratories and a GMP-grade pilot manufacturing plant. The new facility will consolidate employees from three separate locations and will allow us to develop an expanded number of products more efficiently and economically, potentially cutting as much as six months off product development times and lowering costs associated with the manufacture of drugs for clinical trials.

I am also pleased to report that, effective December 31, 2002, subject to regulatory approval, Labopharm will change its fiscal year-end to December 31, from February 28. As a result, the 10-month period from March 1, 2002 to December 31, 2002 will become a transition year. We will prepare financial statements for the three-month period ending November 30, 2002 and for the 10-month transition period ending December 31, 2002. The change in fiscal year-end is intended to better enable investors and the financial community to track the Company's progress.

## Building Shareholder Value

We are very pleased with our progress to date in fiscal 2003. At our annual meeting in July, I outlined those factors that we believe will be critical to our success in becoming a fully integrated specialty pharmaceutical company. In the short period since that meeting, we have taken significant steps towards that goal, continuing to aggressively advance our key programs towards commercialization, broadening our portfolio with additional large market opportunity products, and strengthening both our team and our infrastructure.

As we move through this period of rapid growth, we are singularly focused on building shareholder value by continuing to execute on our strategy. Foremost is our commitment to driving our products through the development process. We have our sights set on potentially filing multiple NDAs in calendar 2003, with our first products reaching the market in calendar 2004. At the same time, we continue to strengthen our clinical development, regulatory and manufacturing capabilities to support our objectives of taking products further in the commercialization process, moving them forward more quickly, and realizing a greater return for our shareholders.

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

James R. Howard-Tripp  
President and CEO  
October 15, 2002



## Highlights

### Highlights of the Quarter

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#### **Completed enrolment for Phase III Tramadol study in Europe**

- Enrolment completed ahead of schedule in multi-centre, pan-European study to assess the efficacy and safety of controlled-release Tramadol
- Company remains on track to file new drug registration dossier in Europe in the fourth quarter of this fiscal year

#### **Signed Letter of Intent with Axcan Pharma Inc. to execute global licensing agreement for the commercialization of trimebutine maleate (MODULON®)**

- Formalized existing agreement with Axcan Pharma
- Licensing agreement will cover U.S., Europe and other international markets
- Partnership with Axcan Pharma represents larger opportunity than originally expected

#### **Signed Letter of Intent with MedPointe Inc. to execute licensing agreement to develop novel, sustained-release products**

- Consistent with strategy to add larger market opportunity products to portfolio
- Expands pipeline to eight products, five of which are partnered programs
- Feasibility and formulation studies have been initiated

#### **Controlled-release Allegra-D® program continues to advance**

- Initiation of first pharmacokinetic study planned for third quarter of fiscal 2003

#### **Dr. Damon Smith appointed as Vice-President, Research and Development**

- More than 12 years experience directing research programs for growth-oriented pharmaceutical development companies
- Has successfully taken three products from development through to commercialization

**Secured marketing agreement for once-daily Tramadol in Europe with Aventis France SA**

- Aventis France will have exclusive rights to market and sell once-daily Tramadol in France and related French dependencies
- Labopharm will supply Aventis France with finished, packaged product through Labopharm Europe Limited
- France most likely to act as reference member state (RMS), with approval in France enabling rapid acceptance across the European Union through the “mutual recognition” laws
- Labopharm is actively engaged in discussion with potential marketing partners for other jurisdictions in Europe, the United States and globally

**Treatment stage of European Phase III study with Tramadol completed ahead of schedule**

**Construction began on Labopharm's new corporate headquarters**

- Located in the Parc scientifique et de haute technologie de Laval
- Facility to be built and owned by real estate developer SITQ Immobilier
- Labopharm will lease facility from SITQ under a 15-year lease
- Will house corporate offices, state-of-the-art laboratories and GMP-grade pilot manufacturing plant
- Will consolidate employees from three separate locations and allow development of an expanded number of products more efficiently and economically



## Management's Discussion and Analysis

### 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 biotech and pharma 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 new release profiles. 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 presently 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 second quarter was marked by continued strong progress in advancing Labopharm's lead in-house product, a once-daily version of the analgesic Tramadol, towards global commercialization. The Company further strengthened its product portfolio by signing new agreements with MedPointe Inc. and Axcan Pharma Inc. The agreement with MedPointe expanded Labopharm's pipeline to eight products, five of which are partnered programs, and moved the Company closer to its target of having ten products under development by fiscal year-end.

### In-house Projects

During the second quarter, Labopharm concluded enrolment of patients in the multi-centre, pan-European Phase III study for the once-daily formulation of Tramadol. Subsequent to quarter end, the Company completed the treatment stage of the study, ahead of schedule. The data from the study is currently being analyzed and Labopharm is on schedule to file a new drug registration dossier in Europe for once-daily Tramadol by the end of February 2003 (fourth quarter fiscal 2003), with France most likely acting as the reference member state (RMS). Approval in France would

permit the Company to capitalize on the "mutual recognition" laws, enabling rapid acceptance across the European Union. Labopharm is actively engaged in discussion with potential marketing partners for other jurisdictions in Europe, the United States and globally.

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 the drug. 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.

Subsequent to quarter end, Labopharm secured a marketing agreement for France with Aventis France SA for its once-daily version of Tramadol. Under the terms of the revenue sharing agreement, Labopharm will grant Aventis France the exclusive right to market and sell once-daily Tramadol in France and related French dependencies. Labopharm will supply Aventis France with finished, packaged product through its European subsidiary which was renamed Labopharm Europe Limited, and will be responsible for obtaining regulatory approval.

In the U.S., Labopharm will use the combined results of the European and U.S. studies to support the filing of a new drug application (NDA) with the U.S. Food and Drug Administration, which is expected in the second half of next year.

## Partnership Projects

During the second quarter, the Company signed a Letter of Intent (LOI) with Axcan Pharma Inc. building upon the existing relationship between the two companies under which Labopharm will develop sustained-release formulations of Axcan's trimebutine maleate (MODULON®). The LOI is expected to lead to a global licensing agreement for the commercialization of this product in the U.S., Europe and other global markets. Labopharm and Axcan have broadened their plans for the worldwide commercialization of the drug and plan to initiate a pilot pharmacokinetic study in the third quarter of the current fiscal year.

Also during the second quarter, Labopharm signed a binding Letter of Intent (LOI) with MedPointe Inc., a privately held specialty pharmaceutical company, to execute a formal licensing agreement, under which the two companies will jointly develop novel, sustained-release products. The first product, referred to as DDS-2001, has an estimated market potential of more than US\$300 million. Under the terms of the LOI, Labopharm immediately began feasibility and formulation studies on the new product, which it expects to complete in the first half of calendar 2003. MedPointe will bear all costs in the development and commercialization of the program.

The LOI with MedPointe is very comprehensive in that it defines the terms for the feasibility and formulation as well as delineating most of the terms that will comprise the final licensing agreement. Discussions to define the breadth and scope of the licence agreement and worldwide commercialization plans for DDS-2001 are revealing opportunities to generate incremental value from this collaboration.

## New Facility

Subsequent to quarter end, construction began on the Company's new corporate headquarters in the Parc scientifique et de haute technologie de Laval. The facility will be built and owned by real estate developer SITQ Immobilier and we will lease the facility from SITQ under a 15-year lease.

The 48,000 square-foot facility will house Labopharm's corporate offices as well as state-of-the-art laboratories and a GMP-grade (Good Manufacturing Practice) pilot plant. The facility will consolidate employees from three separate locations and will allow us to develop 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

Effective December 31, 2002, subject to regulatory approval, Labopharm will change its fiscal year-end to December 31 from February 28. As a result, the 10-month period from March 1, 2002 to December 31, 2002 will become a transition year. The Company will prepare financial statements for the three months ending November 30, 2002 and for the 10-month transition period ending December 31, 2002. The change in fiscal year-end is intended to better enable investors and the financial community to track the Company's progress.

## Operating Revenue

For the second quarter ended August 31, 2002, revenue was \$436,800 compared to \$224,800 for the same period last year. Revenue for the six-month period ending August 31, 2002 was \$809,500 compared to \$409,900 for fiscal 2002.

During the quarter, research and development contracts accounted for \$111,500 of total revenue compared to \$58,100 for the corresponding quarter last year. Research and development contract revenue for the current quarter included the revenue associated with the initiation of the feasibility and formulation studies under the MedPointe Inc. agreement as well as payments from Axcan Pharma related to the MODULON® agreement. For the six-month period, research and development contracts generated \$138,700 compared to \$58,100 for the same period last year. Contract revenue for the current six-month period also includes payments from Aventis SA to conduct feasibility and formulation studies.

Investment income for the quarter was \$325,300 compared to \$166,700 for the same period last year. For the six-month period, investment income was \$670,800 compared to \$351,800 for the same period in fiscal 2002. This increase in investment income is a result of the increase in investments due to the gross proceeds of \$40,365,000 from the equity financing concluded in November 2001.

## Research and Development Expenses

Research and development expenses (net of tax credits) for the second quarter of fiscal 2003 were \$2,435,300 compared to \$1,397,100 for the same period last year. Research and development expenses (net of tax credits) for the first six months of fiscal 2003 were \$5,149,000 compared to \$2,124,600 for the same period last year. The increases reflect costs associated with the Phase III clinical trials for Tramadol in Europe, including manufacturing costs of clinical trial material. As well, the increases are attributable to the addition of scientific staff to the R&D team as the Company focuses its development efforts on a broader base of products.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses for the second quarter of fiscal 2003 were \$1,485,200 compared to \$960,500 for the same period last year. Selling, general and administrative expenses for the first six months were \$2,678,900 compared to \$1,652,000 for the same period a year earlier. The increases reflect the costs related to the creation of Labopharm's subsidiary in Ireland, Labopharm Europe Limited, as well as costs associated with the general increase in the activities of the Company, such as tax planning initiatives, corporate affairs, public relations, insurance, amortization of intellectual property, and the increase in personnel.

## Net Loss

Net loss for the second quarter of fiscal 2003 was \$3.5 million, or \$0.11 per share, compared to \$2.1 million, or \$0.09 per share, for the same period last year. For the first six months of the current fiscal year, net loss was \$7.0 million, or \$0.23 per share, compared to \$3.4 million, or \$0.14 per share, for the first six months of last year. The increases reflect the intensification of clinical trials at a later stage of development, and the general costs that vary accordingly, as well as the efforts of the Company to identify and develop a larger product base.

## Cash Position

Cash and investments at the end of the second quarter were \$37.2 million compared to \$10.3 million at the end of the second quarter of fiscal 2002. The increase reflects net proceeds from the financing completed in November 2001.

## Consolidated statements of loss

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

For periods of:	3 months ended August 31 (Unaudited)		6 months ended August 31 (Unaudited)	
	2002	2001	2002	2001
	\$	\$	\$	\$
<b>Operating revenue</b>				
Research and development contracts	111.5	58.1	138.7	58.1
Investment income	325.3	166.7	670.8	351.8
	<b>436.8</b>	<b>224.8</b>	<b>809.5</b>	<b>409.9</b>
<b>Operating expenses</b>				
Research and development expenses (Note 3)	2,435.3	1,397.1	5,149.0	2,124.6
Selling and administrative expenses	1,485.2	960.5	2,678.9	1,652.0
Finance charges	8.1	2.5	11.5	5.3
	<b>3,928.6</b>	<b>2,360.1</b>	<b>7,839.4</b>	<b>3,781.9</b>
<b>Net loss</b>	<b>(3,491.8)</b>	<b>(2,135.3)</b>	<b>(7,029.9)</b>	<b>(3,372.0)</b>
<b>Basic and diluted loss per share*</b>	<b>(0.1125)</b>	<b>(0.0879)</b>	<b>(0.2267)</b>	<b>(0.1390)</b>
<b>*Weighted average number of shares outstanding</b>	<b>31,040,003</b>	<b>24,297,777</b>	<b>31,010,353</b>	<b>24,254,314</b>

## Consolidated statements of cash flows

(Thousands of dollars)

For periods of:	3 months ended August 31 (Unaudited)		6 months ended August 31 (Unaudited)	
	2002	2001	2002	2001
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss	(3,491.8)	(2,135.3)	(7,029.9)	(3,372.0)
Items not affecting cash				
Depreciation of capital assets	107.2	77.7	204.2	147.9
Amortization of intangible assets	25.2	6.3	50.3	12.5
	<b>(3,359.4)</b>	<b>(2,051.3)</b>	<b>(6,775.4)</b>	<b>(3,211.6)</b>
Net change in non-cash working capital items	874.0	78.4	(20.1)	309.0
	<b>(4,223.4)</b>	<b>(1,972.9)</b>	<b>(6,795.5)</b>	<b>(2,902.6)</b>
<b>Investing activities</b>				
Acquisition of investments	(9,577.1)	0.0	(12,917.6)	0.0
Disposal of investments	16,453.1	1,833.5	21,249.0	2,727.2
Acquisition of capital assets	(171.8)	(75.5)	(470.2)	(257.0)
Acquisition of intangible assets	(85.8)	(132.0)	(259.9)	(134.1)
	<b>6,618.4</b>	<b>1,626.0</b>	<b>7,601.3</b>	<b>2,336.1</b>
<b>Financing activities</b>				
Reimbursement of capital lease obligations	(16.0)	(1.5)	(46.4)	(3.0)
Proceeds from issuance of capital stock	22.9	499.1	437.3	521.1
Issuance costs of capital stock	(1.8)	0.0	(1.8)	(7.5)
	<b>5.1</b>	<b>479.6</b>	<b>389.1</b>	<b>510.6</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,390.1</b>	<b>150.7</b>	<b>1,194.9</b>	<b>(55.9)</b>
Cash, beginning of period	175.7	50.5	1,370.9	257.1
Cash, end of period	<b>2,565.8</b>	<b>201.2</b>	<b>2,565.8</b>	<b>201.2</b>

## Consolidated balance sheets

(Thousands of dollars)

	As at August 31 (Unaudited)	As at February 28 (Audited)
	2002	2001
	\$	\$
<b>Assets</b>		
Current assets		
Cash	2,565.8	2,264.1
Temporary investments	18,408.6	22,554.4
Accounts receivable	1,014.2	727.4
Tax credits receivable on research and development	1,655.5	1,298.8
Prepaid expenses	121.5	169.1
	<u>23,765.6</u>	<u>27,013.8</u>
Capital assets	1,487.5	1,221.5
Intangible assets	1,720.1	1,510.5
Investments	16,257.0	20,442.6
Future income taxes	176.2	176.2
	<u>43,406.4</u>	<u>50,364.6</u>
<b>Liabilities</b>		
Current liabilities		
Cheques issued in excess of bank deposits	–	893.2
Accounts payable and accrued liabilities	1,752.0	1,426.2
Deferred revenue	250.0	–
Current portion of obligations under capital leases	15.9	64.4
	<u>2,017.9</u>	<u>2,383.8</u>
Obligations under capital leases	22.2	20.1
	<u>2,040.1</u>	<u>2,403.9</u>
<b>Shareholders' equity</b>		
Capital stock (Note 4)	87,976.5	87,539.2
Deficit	<u>(46,610.2)</u>	<u>(39,578.5)</u>
	<u>41,366.3</u>	<u>47,960.7</u>
	<u>43,406.4</u>	<u>50,364.6</u>

## Consolidated statements of deficit

(Thousands of dollars)

For periods of:	6 months ended August 31 (Unaudited)	
	2002	2001
	\$	\$
Balance, beginning of year	(39,578.5)	(28,088.6)
Issuance costs of capital stock	(1.8)	(7.5)
Net loss	<u>(7,028.8)</u>	<u>(3,372.0)</u>
Balance, end of period	<u>(46,610.2)</u>	<u>(31,468.1)</u>

## **1. Basis of presentation**

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada for interim financial information. 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 February 28, 2002.

The consolidated balance sheet as of February 28, 2002 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and notes required by GAAP for annual financial statements.

The accounting policies and methods followed in preparation of these interim consolidated financial statements are the same as those used in the audited financial statements for the year ended February 28, 2002, except as described in Note 2.

## **2. Changes in accounting policies**

### **i) Intangible assets**

Effective March 1, 2002, the Company prospectively adopted the new recommendations published by the Canadian Institute of Chartered Accountants ("CICA") relating to the method of valuation and the presentation and disclosure requirements for intangible assets. The new recommendations require recognized intangible assets to be amortized over their useful life to an enterprise, unless the life is determined to be indefinite. When an intangible asset is determined to have an indefinite useful life, it should not be amortized until its life is determined to be no longer indefinite. The amortization method and estimate of the useful life of an intangible asset should be reviewed annually. Intangible assets that are subject to amortization are tested for impairment by comparing the net carrying amount with the net recoverable amount whereas for intangible assets not subject to amortization, the net carrying amount is compared to the asset's fair value. The impact of the adoption of the new recommendations has not resulted in any change to the recognized intangible assets of the Company because its intangible assets are not considered to have an indefinite life. However, the Company has additional disclosure requirements relating to its intangible assets.

### **ii) Stock-based compensation and other stock-based payments**

Effective March 1, 2002, the Company also adopted the new CICA recommendations relating to stock-based compensation and other stock-based payments. As permitted, the Company has applied this change prospectively for new awards granted on or after March 1, 2002. The Company has chosen to recognize no compensation when stock options are granted to employees and directors under stock option plans with no cash settlement features. However, direct awards of stock to employees and stock and stock option awards granted to non-employees is accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock is determined based on the quoted market price of the Company's stock and the fair value of stock options to non-employees is estimated at the date of grant using the Black-Scholes Option Pricing Model. The adoption of these new recommendations did not have an impact on the Company's financial position or results of operations for the period. However, the Company has additional disclosure requirements (see Note 5).

### 3. Research and development expenses

Research and development expenses are presented net of tax credits of \$356,790 and \$250,762 for the six months ended August 31, 2002 and 2001.

### 4. Capital stock

Authorized

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

Unlimited number of common shares, without par value

Issued: 31,041,381 common shares (February 28, 2002 - 30,908,681)

### 5. Stock-based compensation

On July 3, 2002, the maximum number of shares to be issued pursuant to the Company's stock option plan was increased to 4,650,000. As at August 31, 2,758,600 options were outstanding compared to 2,865,800 as at February 28, 2002. During the six months ended August 31, 200,000 options were granted, 132,700 options were exercised and 174,500 options were cancelled.

No compensation cost has been recognized for stock options granted to employees and directors during the six months ended August 31, 2002. The fair value of these options was estimated at the date of granting using the Black-Scholes Option Pricing Model with the following assumptions for 2002: expected volatility of 0.82; a 3.50% risk-free interest rate; and expected lives of 2.75 years. The weighted average grant date fair value of options granted during this period amounted to \$1.99 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 loss per common share would have been amended as follows:

		Three months ended August 31, 2002	Six months ended August 31, 2002
Net loss	As reported	\$(3,491,848)	\$(7,029,946)
	Pro forma	(3,778,017)	(7,321,003)
Loss per share basic and diluted	As reported	\$(0.1125)	\$(0.2267)
	Pro forma	(0.1217)	(0.2361)

### 6. Comparative figures

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

## Officers

### **Donald Buxton**

Chairman of the Board

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

President and Chief Executive Officer

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

Vice-President, Clinical Development

### **Vincent Lenaerts, PhD\***

Chief Scientific Officer,

Vice-President, Research and Development

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

Vice-President, Business Development

### **Damon Smith, PhD\*\***

Vice-President, Research and Development

### **Warren Whitehead, CMA**

Chief Financial Officer

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

Director, Corporate Affairs and Secretary

\* V. Lenaerts left the Company in July 2002

\*\* D. Smith was appointed Vice-President in July 2002

## Investor Relations

James R. Howard-Tripp

President and Chief Executive Officer

Warren Whitehead, CMA

Chief Financial Officer

Vincent Lavigne

Director, Communications and Investor Relations

## Stock Exchange Listing

Toronto Stock Exchange

Trading Symbol: DDS