



Q2

Quarterly Report

Second Quarter - Fiscal 2003

Labopharm

Highlights

SECOND QUARTER HIGHLIGHTS

Completed Enrolment for U.S. Phase III Clinical Trials

- More than 1,000 patients enrolled ahead of schedule
- Trial completion scheduled in third quarter with data expected in the fourth quarter
- Results, combined with data from the European and other trials will support U.S. New Drug Application (NDA) Filing

Advanced Development Across Product Pipeline

Once-Daily Allegra-D®

- Completed the technology transfer to a third party and, in consultation with Aventis, is now manufacturing three U.S. NDA batches.

DDS-2001

- Completed both the feasibility and formulation development stages for DDS-2001, partnered with New Jersey-based MedPointe Inc. The manufacturing process has been scaled up to allow clinical trial batch manufacture in preparation for initial clinical studies scheduled for the fourth quarter of 2003.

Controlled-Release Trimebutine Maleate

- Together with Axcan Pharma, completed feasibility and formulation of a novel formulation of trimebutine maleate. Manufacturing process scaled up to allow clinical trial batch manufacture in preparation for initial clinical studies scheduled for the fourth quarter of 2003.

DDS-2003

- Developing a novel approach to overcome less than optimal delivery characteristics of currently marketed product. Prototype formulations selected for validation in animal models with formal development expected to commence in the fourth quarter of 2003.

Once-Daily Oxybutynin

- A new formulation of once-daily oxybutynin, optimized in animal models, is undergoing clinical trial batch manufacturing in order to initiate clinical studies in the fourth quarter of 2003.

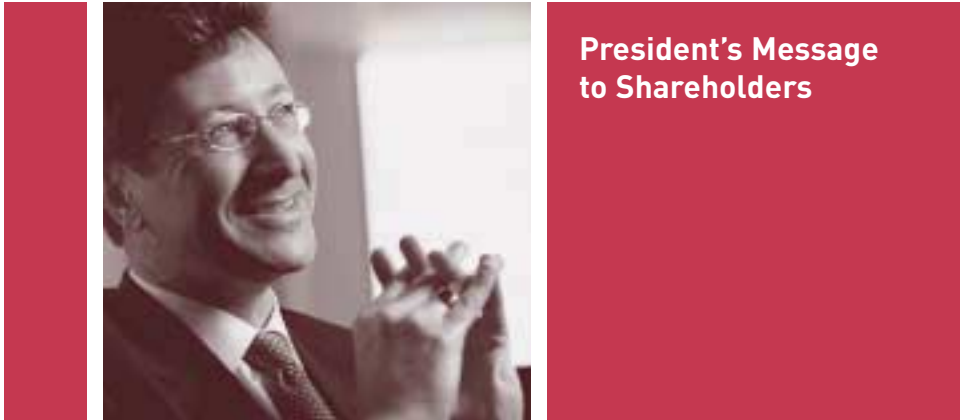
HIGHLIGHTS SUBSEQUENT TO SECOND QUARTER END

Concluded Marketing Agreements for Once-Daily Tramadol for Italy, Spain and Portugal

- Definitive agreements finalized subsequent to quarter-end
- Gruppo Angelini (Italy) and Esteve S.A. (Spain and Portugal) will have exclusive rights to market and sell once-daily tramadol in their respective jurisdictions
- Labopharm will supply Angelini and Esteve with finished, packaged product through Labopharm Europe Limited
- Labopharm is finalizing a definitive agreement for France, with Aventis France S.A., and is actively engaged in discussions to establish additional marketing channels for the remainder of Europe, as well as the United States.

Announced Equity Financing for Gross Proceeds of \$23,200,520

- Subsequent to quarter-end, Labopharm closed an equity financing, issuing 4.74 million shares at a price of \$4.90
- Proceeds from the offering will be used to support the anticipated commercialization of once-daily tramadol, to advance development of new programs within Labopharm's pipeline, as well as for working capital and general corporate purposes.



This second quarter saw Labopharm continue to make progress across its entire pipeline, but particularly on once-daily tramadol, building on the successes and momentum of the last 18 months. The groundwork we laid in 2002 has facilitated our progress in 2003 as we begin to take the final steps toward the commercialization of our lead in-house product. We remain on track, passing milestones on or ahead of schedule, with the goal of initially commercializing our first product in Europe in 2004 and subsequently in the United States and throughout the rest of the world.

Our financial results this quarter reflect our overall rapid progress, the escalation in our partnering efforts and passage through the most capital-intensive phase in our U.S. clinical trial program. Ahead lies the opportunity to begin realizing a return on the investment in our technology, our first product and our pipeline. As we move closer to commercialization, we have become increasingly excited about the prospects for our formulation of once-daily tramadol. Both existing and potential partners have voiced their belief in the product's strong prospects, leading us to believe that it may have even more significant market potential than we initially thought. Currently marketed forms of tramadol continue to experience strong growth in the United States and Europe and we are focused on putting relationships in place that will allow us to effectively penetrate these key markets.

International Progress on Once-Daily Tramadol Program In early June, we announced that we had completed enrolment of more than one thousand patients in our two U.S. Phase III clinical trials ahead of schedule. To date we have enrolled more than 1,800 patients worldwide in clinical trials for once-daily tramadol. With dosing scheduled for completion in the third quarter, we anticipate having results before the end of the year. The results from these trials will be combined with data from our phase III European trial, and other studies, to form the basis of our NDA submission to the FDA. The United States is the world's largest tramadol market, with peak sales of \$760 million in 2002. It is also growing

rapidly, with the total number of prescriptions written for tramadol products in 2002 increasing 18 per cent compared with the previous year.

Our recent progress has not been limited to the United States. In the first quarter we announced strong results from our European Phase III clinical trial. The data from the trial was recently accepted for poster presentation at the prestigious Osteoarthritis Research Society International (OARSI) World Congress being held in Berlin, Germany from October 12th to 15th. As we move towards actively marketing our formulation of once-daily tramadol, publication of trial data in peer reviewed journals and presentations at key conferences will play an important role in educating physicians and other thought leaders about the strengths of our product and the drug delivery technology behind it.

During the quarter we also announced marketing agreements for Italy with Gruppo Angelini, one of the top five pharmaceutical companies in that country and for Spain and Portugal with Esteve S.A., Spain's second largest pharmaceutical company. Subsequent to quarter end we finalized the definitive partnerships. Under the terms of the agreements, Labopharm will receive upfront and milestone payments for achieving certain goals through to regulatory approval, which is expected in mid-2004, and will earn a share of revenue from product sales. With marketing agreements falling into place, we are now focusing on logistical details including finalization of packaging and planning of manufacturing runs, all of which is being facilitated through the Company's wholly owned subsidiary, Labopharm Europe Limited.

As an example of the kind of momentum that is building behind our product, our Spanish partner, Esteve S.A., is dedicating three separate sales forces in Spain because of the strong initial opportunity and superior potential for growth they believe exists in that country. We think this very clearly speaks to the promise of once-daily tramadol and has elevated our expectations with respect to the potential for this product, not only in that country but in other key regions as well.

We are in the process of finalizing a definitive agreement with Aventis France S.A., the dominant tramadol marketer in the French market, which together with Spain, Portugal and Italy provides us with marketing channels in three of the five largest European markets. Tramadol has experienced European sales growth of 20 per cent since 2000 with significantly higher growth rates in key markets across the continent. We are currently in discussion with a number of groups to secure additional marketing channels in Europe, as well as the U.S. and expect to be able to announce additional agreements before the end of the year.

Advances Across Our Pipeline While we made rapid progress towards the commercialization of once-daily tramadol in the quarter, we continue to make advances with products across our pipeline with five programs moving into the clinic. We have developed a new formulation of once-daily oxybutynin.

This formulation has now been optimized in a series of animal models and scaled up with clinical trial batches presently being manufactured in order to initiate the clinical studies in the fourth quarter of this year. We are also making progress with another of our in-house products, DDS-2003, which we believe is potentially another large opportunity for us, with the currently marketed product recording annual sales in excess of US\$1 billion. We are developing a novel approach to overcome less than optimal delivery characteristics of this currently marketed product. Prototype formulations have been selected for validation in animal models with formal development expected to commence in the fourth quarter of 2003.

Turning to our partnered programs, we have also moved to the next phase of development on once-daily Allegra-D®. We have completed the technology transfer to a third party and, in collaboration with Aventis, are now manufacturing the three U.S. New Drug Application (NDA) batches that will enable the program to move forward. With respect to DDS-2001, our first program we are developing with New Jersey-based MedPointe Inc., we have completed both the feasibility and formulation stages, and the manufacturing process has been scaled up to allow clinical trial batch manufacture in preparation for the initial clinical studies which are scheduled for the fourth quarter of this year. Looking at our trimebutine maleate program, together with Axcan Pharma, we have completed feasibility and formulation of a novel controlled-release formulation. Again, we have scaled up to allow clinical trial batch manufacture in preparation for initial clinical studies scheduled for the fourth quarter of this year.

Enhanced Financial Strength During the quarter we announced an equity offering, which closed subsequent to quarter-end for gross proceeds of \$23,200,520. Proceeds from the offering will be used to support the anticipated commercialization of once-daily tramadol, including both the product launch in Europe and the submission of a regulatory filing in the United States, and to advance development of new programs within Labopharm's pipeline, as well as for working capital and general corporate purposes. Importantly, our strengthened financial position will ensure we have the resources in place to execute our commercialization strategy for once-daily tramadol, including the conclusion of additional marketing partnerships worldwide.

Realizing a Return In the first six months of 2003 we've made remarkably rapid progress on our once-daily tramadol program meeting key milestones and laying the foundation for commercial success in the year ahead. We remain on track to commercialize once-daily tramadol in 2004 and have dedicated significant time, energy and resources to ensure that we are well positioned to capitalize on the strong and growing market for tramadol products. The completion of the equity financing leaves us well capitalized to execute our growth strategy to become a fully integrated, international specialty pharmaceutical company.

For the balance of the year we will continue to invest in both the short and long-term growth of Labopharm, focusing on the final push to commercialization of our lead product and the continued advancement of multiple programs across the pipeline. We expect to begin realizing a return on our investment in 2004 as we begin to derive revenue from product sales, move towards profitability and strive to commercialize additional products in our pipeline. We look forward to keeping you updated on our progress as we move through the balance of the year.

(signed)

James R. Howard-Tripp
President and
Chief Executive Officer
August 7, 2003

Management's Discussion and Analysis

The following information should be read in conjunction with Labopharm Inc.'s ("the Company") unaudited interim Consolidated Financial Statements as of June 30, 2003 and Notes included herewith, which are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements, as well as the audited Consolidated Financial Statements and Management's Discussion and Analysis for the ten-month period ended December 31, 2002.

OVERVIEW

Labopharm specializes in the development of pharmaceutical products incorporating its proprietary controlled-release technologies. As a specialty pharmaceutical company focused on drug delivery, the Company's business model differs from conventional 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 improved release profiles and performance. As a result, Labopharm's products should have shorter development timelines, lower development costs and, through the marketing resources of the Company's partners, could achieve faster market penetration.

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

PRODUCT DEVELOPMENT

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

In-house Projects

Once-Daily Tramadol During the quarter, Labopharm announced the completion of enrolment of more than 1,000 patients in its pivotal US Phase III clinical trials. The trials, required to assess the efficacy and safety of once-daily tramadol, are part of the Company's global regulatory strategy for once-daily tramadol. This strategy involves conducting pharmacokinetic and efficacy studies in both Europe and the United States to more rapidly move tramadol through regulatory filings and commercialization in key global markets. To date, the Company has enrolled more than 1,800 patients in various clinical studies as part of its global once-daily tramadol program.

In January, Labopharm initiated two, double blind, multi-centre, randomized trials in the U.S. to evaluate the efficacy of once-daily tramadol in reducing moderate to moderately severe pain in patients suffering from osteoarthritis. The subject population will include men and women aged 40 to 75 and patient dosing will last for 12 weeks. The Company expects to complete dosing in the third quarter with trial results becoming available in the fourth quarter of 2003. The U.S. trial data, in conjunction with the data from the European Phase III and other completed studies, will form the New Drug Application (NDA) filing to the FDA. Tramadol is currently available in the U.S. only in immediate-release forms that require dosing four to six times daily.

In April, Labopharm, through its wholly owned subsidiary, Labopharm Europe Limited, secured marketing agreements for Italy with Gruppo Angelini and for Spain and Portugal with Esteve S.A., for once-daily tramadol. Gruppo Angelini is a privately held international conglomerate with pharmaceutical, consumer products and machinery divisions, comprising 20 operating companies. Esteve S.A. is a privately held, international chemical-pharmaceutical company with a 75-year operating history and facilities in Spain, Portugal, Mexico and China. These agreements, finalized subsequent to quarter-end, supplement the existing relationship for France, Europe's largest tramadol market, with Aventis France S.A. Under the terms of the revenue sharing agreements, Labopharm will grant its marketing partners the exclusive right to market and sell once-daily tramadol in their respective countries. The Company will supply each partner with finished, packaged product through Labopharm Europe Limited, and will be responsible for obtaining regulatory approval in each country. Labopharm is actively engaged in discussions to establish marketing channels for other jurisdictions in the EU, other countries in Europe, the United States and globally.

The Company has several other in-house programs in its product portfolio.

DDS-2003 DDS-2003 is a currently marketed product that does not have optimal delivery characteristics. Labopharm is developing a novel approach to overcome these inherent delivery issues. The Company has selected prototype formulations

and is validating its approach in animal models, with the intention of entering formal development in the fourth quarter of 2003.

Once-Daily Oxybutynin Labopharm has also developed a new formulation of once-daily Oxybutynin. This formulation has been optimized in a series of animal models and scaled up with clinical trial batches being manufactured in order to initiate clinical studies in the fourth quarter of this year.

Partnered Projects

Labopharm's pipeline also includes a number of partnered programs.

Allegra-D® The Company has completed the technology transfer to a third party and, in collaboration with Aventis, is now manufacturing three U.S. New Drug Application batches.

DDS-2001 Labopharm has completed both the feasibility and formulation development stages for DDS-2001, its first partnered product with New Jersey-based MedPointe Inc. The manufacturing process has been scaled up to allow clinical trial batch manufacture in preparation for initial clinical studies scheduled for the fourth quarter of this year.

Trimebutine Maleate Labopharm, together with Axcan Pharma, has completed feasibility and formulation of a novel formulation of trimebutine maleate. The manufacturing process has been scaled up to allow clinical trial batch manufacture in preparation for initial clinical studies scheduled for the fourth quarter of this year.

FINANCING UPDATE

On June 26, 2003, the Company announced that it had entered into an agreement to issue 4.5 million common shares at a price of \$4.90 to a syndicate of underwriters for net proceeds of approximately \$20,700,000. Subsequent to the offering closing on July 15, 2003, the syndicate of underwriters exercised their over-allotment option and Labopharm issued an additional 234,800 common shares for gross proceeds of \$1,150,520, raising total gross proceeds obtained from the offering to \$23,200,520. Proceeds from the offering will be used to support the anticipated commercialization of once-daily tramadol, including both the product launch in Europe and the submission of a regulatory filing in the United States, and to advance development of new programs within Labopharm's pipeline, as well as for working capital and general corporate purposes.

CHANGE IN FISCAL YEAR-END

In 2002, the Company changed its financial year-end from February 28 to December 31. Accordingly, the consolidated statements of loss, cash flow and deficit for the second quarter ended June 30, 2003, are compared to the quarter ended May 31, 2002.

OPERATING REVENUE

For the second quarter ended June 30, 2003, revenue was \$678,300 compared with \$372,700 for the quarter ended May 31, 2002. Research and development contracts accounted for \$521,700 of total revenue during the quarter, reflecting the completion of the formulation phase of the MedPointe Inc. agreement. For the six-month period ended June 30, 2003, revenue from research and development contracts generated \$599,700 in revenue compared with \$84,500 in the comparative period. During the second half of 2003, the Company expects to begin recognizing as revenue a portion of the payments it will receive in relation to the agreements entered into for the commercialization of tramadol.

Investment income for the quarter ended June 30, 2003 was \$156,600 compared with \$345,500 for the quarter ended May 31, 2002. This decrease reflects the gradual decline in the Company's investments as the proceeds from the equity financing concluded in November 2001 are used as anticipated to realize the Company's strategic plan. For the six-month period ended June 30, 2003 investment income totalled \$385,000 compared with \$706,800 in the comparative period. Investment income is expected to increase in the second half of the year compared to the first half due to the financing concluded on July 15, 2003.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses (net of tax credits) for the second quarter ended June 30, 2003 were \$7,321,900 compared with \$2,713,700 for the quarter ended May 31, 2002. The significant increase is primarily attributable to the costs associated with final stages of the Phase III clinical trial for tramadol in Europe and the progress made on the two Phase III studies in the U.S., where patient enrolment was completed in late May of 2003, ahead of schedule. The increase in research and development expenses in the current quarter was also the result of an increase in the number of employees and related costs required to expand the Company's product portfolio and accelerate development. As the Company expects the Phase III trials in the United States to be completed by the current year-end, clinical trial costs are expected to be considerably less in 2004.

For the six-month period ended June 30, 2003, research and development expenses totalled \$13,567,900, of which approximately \$11,300,000 were costs related primarily to the Phase III clinical studies conducted during the period. For the six-month period ended May 31, 2002, research and development expenses totalled \$5,148,000 of which approximately \$3,200,000 were costs related to clinical trials. Accordingly, research and development costs not related to clinical trials totalled approximately \$2,267,900 in the current six-month period, compared with approximately \$1,948,000 in the comparable period last year. This increase in costs is attributable to the growth in the Company's research and development activities, including an increase in R&D personnel, and a larger product portfolio. In addition, during the second quarter, the company moved into its state-of-the-art laboratories, thereby incurring increased depreciation charges for its new research and development equipment and the R&D portion of the building accounted for as a capital lease.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the second quarter ended June 30, 2003 were \$2,047,600 compared with \$1,193,700 for the quarter ended May 31, 2002. As the Company prepares to launch its first commercial product, its infrastructure requirements to successfully meet its objectives are increasing. Additional business development resources were added to secure commercial agreements with worldwide partners. As the necessary resources are put in place, operating costs at Labopharm Europe Limited are significantly higher than in the comparative period. Consulting and professional fees increased - due to the negotiation and drafting of commercial agreements, in addition to reviewing, maintaining and improving the patent portfolio in various territories for the Company's products and technology. Higher costs were also incurred for the following items: depreciation for the new building accounted for as a capital lease and relocation to the new facilities. Selling, general and administrative expenses for the six-month period ended June 30, 2003 were \$3,915,200 compared with \$3,347,400 for the six-month period ended May 31, 2002.

The finance charges of \$136,200 for the quarter ended June 30, 2003 primarily include interest on the capital leases of the Company including the lease for the Company's new facilities, which commenced during May 2003.

NET LOSS

Net loss for the second quarter ended June 30, 2003 was \$8,827,400, or \$0.28 per share, compared with \$3,538,100, or \$0.11 per share for the quarter ended May 31, 2002. For the six-month period ended June 30, 2003, net loss was \$16,644,200, or \$0.54 per share, compared with \$7,720,100, or \$0.25 for the comparative period.

The increase reflects the multiple concurrent Phase III clinical trials for once-daily tramadol, the general increase in the Company's costs as it moves closer to the global commercialization of tramadol, and the progress toward becoming an integrated, international specialty pharmaceutical company with a robust portfolio of products.

Labopharm is also providing the following guidance relating to its net loss for fiscal 2003. As a result of the structure and timing of payments negotiated in the Company's licensing and distribution agreements for once-daily tramadol, the Company expects to recognize only a portion of the up front and milestone payments as revenue in 2003 with the balance to be recognized in 2004 and 2005, as milestones leading up to the global commercialization of once-daily tramadol are met. This revenue recognition approach is consistent with evolving industry standards and with Canadian and U.S. generally accepted accounting principles, and is more conservative than what was originally anticipated by the Company. Additionally, in light of its strengthened financial position as a result of the recently completed financing, Labopharm is accelerating program development across its pipeline, which will increase research and development expenses for the year. Although the Company should receive up front and milestone payments from its licensing agreements and have these reflected in its cash position, the net loss for the second half of 2003 is expected to be similar to that in the first half of the year.

LIQUIDITY AND CAPITAL RESOURCES

Cash and investments at the end of the second quarter ended June 30, 2003 were \$16,891,200 compared with \$32,480,600 as of December 31, 2002, a \$15,589,400 decrease. The major use of funds during the six-month period included \$12,755,600 used for operations, primarily for research and development activities, and \$2,917,800 invested in property, plant and equipment coinciding with the Company's relocation into its new state-of-the art facilities during the second quarter ended June 30, 2003, of which approximately two-thirds is related to the GMP manufacturing capabilities.

Prior to quarter-end, the Company announced its intention to complete a public offering issuing 4.5 million common shares at a price of \$4.90 for gross proceeds of \$22,050,000. Subsequent to the offering closing on July 15, 2003, the syndicate of underwriters exercised their over-allotment option and Labopharm issued an additional 234,800 common shares for gross proceeds of \$1,150,520, raising total gross proceeds obtained from the offering to \$23,200,520. The expenses incurred as a result of the issue are estimated at \$1,350,000 and the net proceeds of \$20,700,000 will increase the Company's available cash resources accordingly.

As the Company secures licensing agreements in Europe and other territories, for its flagship product tramadol, it expects to begin receiving payments in regards to these

agreements in the second half of the current year as it reaches certain milestones, including marketing approval of the product in Europe.

Under the Company's current operating plan, management believes that the Company's current cash, cash equivalents, and investments, together with the public offering completed on July 15, 2003 and milestone payments from existing and anticipated commercial agreements, should be sufficient to finance its operations and capital needs into 2005, by which time it expects to generate a positive cash flow from its operations. However, in light of the inherent uncertainties associated with research and development programs, scale-up and commercialization of products, ability to enter into collaborative research and development agreements, the results of clinical testing, receipt of regulatory approval of certain products and ability to secure licensing agreements, it may be necessary for the Company to either (i) raise additional funds for the continuing development and marketing of its products, or (ii) delay or scale-back its development programs. Furthermore, additional financing may also be required for business acquisitions or to acquire additional products or technology.

RISKS AND UNCERTAINTIES

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

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

Labopharm's success also depends, in large measure, on its ability to conclude licensing, development, manufacturing and marketing agreements with other

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

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

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

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

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

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

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

Consolidated Statements of Loss (Unaudited)

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

For periods of:

	Three months ended		Six months ended	
	June 30, 2003	May 31, 2002	June 30, 2003	May 31, 2002
	\$	\$	\$	\$
OPERATING REVENUE				
Research and development contracts	521.7	27.2	599.7	84.5
Investment income	156.6	345.5	385.0	706.8
	678.3	372.7	984.7	791.3
OPERATING EXPENSES				
Research and development expenses [note 6]	7,321.9	2,713.7	13,567.9	5,148.0
Selling, general and administrative expenses	2,047.6	1,193.7	3,915.2	3,347.4
Finance charges	136.2	3.4	145.8	16.0
	9,505.7	3,910.8	17,628.9	8,511.4
NET LOSS	(8,827.4)	(3,538.1)	(16,644.2)	(7,720.1)
BASIC AND DILUTED LOSS PER SHARE	(0.28)	(0.11)	(0.54)	(0.25)
Weighted average number of common shares outstanding	31,086,753	30,995,217	31,073,723	30,877,137

Consolidated Statements of Cash Flows (Unaudited)

(Thousands of dollars)

For periods of:

	Three months ended		Six months ended	
	June 30, 2003	May 31, 2002	June 30, 2003	May 31, 2002
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(8,827.4)	(3,538.1)	(16,644.2)	(7,720.1)
Items not affecting cash				
Depreciation of property, plant and equipment	286.0	97.0	387.1	181.4
Amortization of intangible assets	92.2	25.1	117.4	224.4
Loss on disposal and write-off of property, plant and equipment	-	-	-	8.4
	(8,449.2)	(3,416.0)	(16,139.7)	(7,305.9)
Net change in non-cash working capital items	1,917.0	853.6	3,369.1	545.6
	(6,532.2)	(2,562.4)	(12,770.6)	(6,760.3)
INVESTING ACTIVITIES				
Acquisition of investments	(150.0)	(3,340.4)	(2,771.9)	(7,646.1)
Disposals and maturities of investments	8,675.0	4,796.2	18,240.8	11,477.8
Acquisition of property, plant and equipment	(1,625.7)	(298.5)	(2,917.8)	(361.7)
Acquisition of intangible assets	(63.1)	(174.1)	(90.5)	(273.3)
	6,836.2	983.2	12,460.6	3,196.7
FINANCING ACTIVITIES				
Repayment of capital leases obligations	(25.8)	(30.4)	(27.6)	(32.0)
Proceeds from issuance of capital stock	203.3	414.4	217.1	2,213.9
Issuance costs of capital stock	-	-	-	(300.8)
	177.5	384.0	189.5	1,881.1
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	481.5	(1,195.2)	(120.5)	(1,682.5)
Cash and cash equivalents, beginning of period	1,116.2	1,370.9	1,718.2	1,858.2
Cash and cash equivalents, end of period	1,597.7	175.7	1,597.7	175.7

See accompanying notes.

Consolidated Balance Sheets

(Thousands of dollars)	As at June 30, 2003 (Unaudited)	As at December 31, 2002 (Audited)
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	1,597.7	1,718.2
Short-term investments	13,263.5	22,294.3
Accounts receivable	1,522.4	1,251.6
Research and development tax credits receivable	1,074.7	568.3
Prepays and other assets	223.5	426.8
	<u>17,681.8</u>	26,259.2
Property, plant and equipment [note 3]	10,739.1	2,020.0
Intangible assets	1,917.3	1,944.2
Long-term investments	2,030.0	8,468.1
	<u>32,368.2</u>	38,691.5
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	7,720.2	3,923.9
Deferred revenue	263.7	117.0
Current portion of obligations under capital leases [note 4]	205.5	7.8
	<u>8,189.4</u>	4,048.7
Obligations under capital leases [note 4]	5,976.6	13.5
	<u>14,166.0</u>	4,062.2
SHAREHOLDERS' EQUITY		
Capital stock [note 5]	88,231.5	88,014.4
Deficit	(70,029.3)	(53,385.1)
	<u>18,202.2</u>	34,629.3
	<u>32,368.2</u>	38,691.5

Consolidated Statements of Deficit (Unaudited)

(Thousands of dollars)	June 30, 2003	May 31, 2002
	\$	\$
For periods of six months ended:		
BALANCE, beginning of period	(53,385.1)	(35,095.7)
Issuance costs of capital stock	-	(300.8)
Net loss	(16,644.2)	(7,720.1)
BALANCE, end of period	(70,029.3)	(43,116.6)

See accompanying notes.

Notes to Consolidated Financial Statements

As at June 30, 2003

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The Company, incorporated under the *Companies Act (Québec)* is specialized in the development of drugs using advanced controlled-release technologies and the development of pharmaceutical products incorporating its proprietary technologies. The Company carries on business in Canada and Ireland and substantially all of the Company's assets are located in Canada. In 2002, the Company changed its fiscal year end from February 28 to December 31. Accordingly, the consolidated statements of loss, cash flow, and deficit, for the six-month period ended June 30, 2003 are compared to the six-month period ended May 31, 2002.

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

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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

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

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
June 30, 2003			
Laboratory equipment	3,405,739	1,157,395	2,248,344
Computer hardware and software	774,954	350,368	424,586
Furniture	690,800	244,837	445,963
Leasehold improvements	360,541	360,061	480
	<u>5,232,034</u>	<u>2,122,661</u>	<u>3,119,373</u>
Assets under capital leases			
Building	7,386,084	79,388	7,306,696
Laboratory equipment	359,146	46,096	313,050
	<u>12,977,264</u>	<u>2,248,145</u>	<u>10,739,119</u>
December 31, 2002			
Laboratory equipment	1,913,973	991,021	922,952
Computer hardware and software	443,374	288,549	154,825
Furniture	320,580	213,419	107,161
Leasehold improvements	360,061	329,037	31,024
Assets under construction	738,380	-	738,380
	<u>3,776,368</u>	<u>1,822,026</u>	<u>1,954,342</u>
Assets under capital leases			
Laboratory equipment	94,712	28,998	65,714
	<u>3,871,080</u>	<u>1,851,024</u>	<u>2,020,056</u>

During the six-month period ended June 30, 2003, a building for \$5,970,000 and laboratory equipment for \$218,385 were acquired through capital leases (laboratory equipment for \$57,387 in 2002). The building is amortized using the straight-line method over the term of the fifteen-year lease.

4. CAPITAL LEASE OBLIGATIONS

	June 30, 2003	December 31, 2002
	\$	\$
Building, repayable in monthly instalments of \$70,833 until May 2008, \$83,333 from June 2008 to May 2013, and \$95,833 from June 2013 to April 2018, including interest calculated at 14.6%.	15,000,000	—
Various leases for laboratory equipment, repayable in monthly instalments totalling \$9,544 including interest ranging from 7.0% to 13.5%, with transfer of ownership at maturity from May to July 2005.	232,646	25,080
	15,232,646	25,080
Interest included in instalments	9,050,531	3,710
	6,182,115	21,370
Current portion	205,524	7,827
	5,976,591	13,543

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

31,133,731 common shares (December 31, 2002 – 31,058,081)

Stock option plan

The changes to the number of stock options granted by the Company and their weighted average exercise price, for the six-month period ended June 30, 2003, are as follows:

	#	\$
Balance, beginning of period	3,460,825	4.24
Granted	200,000	4.28
Exercised	(75,650)	2.87
Expired	(489,800)	4.09
Forfeited	(31,850)	4.98
Balance, end of period	3,063,525	4.30
Options eligible to be exercised, end of period	2,190,050	3.94

5. CAPITAL STOCK (CONT'D)

No compensation cost has been recognized for stock options granted to employees and directors during the six-month period ended June 30, 2003. Pro forma information regarding net loss has been determined as if the Company had accounted for stock options granted under the fair value method. The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions; volatility factor of the expected market price of the Company's common shares of 0.92 (2002 - 0.94); a risk-free interest rate of 4.0% (2002 - 3.5%); an expected life of the options of 4 years (2002 - 3.4 years); and a dividend yield of nil. The weighted average fair-value of stock options granted during the six-month period ended June 30, 2003 under the Black-Scholes option pricing model and the above assumptions amounted to \$2.86 (2002 -\$1.91) per option.

Had compensation cost been determined based on the fair value at the date of grant of the options granted, the fair value of the options would have been amortized over the vesting period of the options and the Company's net loss and basic and diluted loss per share for the six-month period ended June 30, 2003 would have been amended as follows:

		Three months ended		Six months ended	
		June 30, 2003	May 31, 2002	June 30, 2003	May 31, 2002
		\$	\$	\$	\$
Net loss	As reported	(8,827,355)	(3,538,098)	(16,644,158)	(7,720,123)
	Pro forma	(9,458,315)	(3,544,402)	(17,499,182)	(7,726,427)
Basic and diluted loss per share	As reported	(0.28)	(0.11)	(0.54)	(0.25)
	Pro forma	(0.30)	(0.11)	(0.56)	(0.25)

6. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are presented net of tax credits of \$506,428 and \$305,299 for the six-month periods ended June 30, 2003 and May 31, 2002.

7. SUBSEQUENT EVENTS

On July 15, 2003, the Company issued 4,500,000 common shares, for a total consideration of \$22,050,000 in cash. The share issue costs are estimated at \$1,350,000.

8. COMPARATIVE FIGURES

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

General Information

Officers

Donald Buxton
Chairman of the Board (Non-Executive)

James R. Howard-Tripp
President and Chief Executive Officer

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

Lisane Dostie, LLB
General Counsel and Corporate Secretary

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

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

Warren Whitehead, CMA
Chief Financial Officer

Investor Relations

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

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

Labopharm Inc.

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

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