

Third Quarter – Fiscal 2002

**Q3**



**Labopharm**

What is Labopharm's competitive edge?

## **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

Third Quarter – Fiscal 2002



In the third quarter of fiscal 2002, ended November 30, 2001, Labopharm met important financial and strategic milestones and concluded two licensing agreements with Aventis, a leading global pharmaceutical company.

The third quarter saw significant progress towards realizing the value in our product pipeline with the conclusion of two global licensing agreements with Aventis. Additionally, we took steps to ensure that the Company was adequately capitalized to commercialize its first products on schedule, in 2004, raising \$40.4 million in a bought-deal financing. Also, the Company was added to the TSE 300 Composite Index on October 11, 2001, a development that we believe will expand our shareholder base.

### **Global Licensing Agreements with Aventis for Two Core Brands**

In September 2001, we concluded a definitive worldwide licensing agreement with Aventis and an unnamed partner to develop new formulations of an undisclosed drug with year 2000 sales in excess of US\$650 million, incorporating Labopharm's Contramid® controlled-release technology. Under the terms of the agreement, lasting for the life of the patents, Labopharm will receive milestone payments following the successful completion of clinical studies, and royalty payments on product sales for the newly formulated products. In addition, under this agreement, we have entered into a further arrangement whereby Labopharm has granted exclusive licenses to Aventis and the other pharmaceutical company to utilize our technology in a defined therapeutic area. In return, Labopharm has obtained the right to formulate further development compounds for Aventis and the other pharmaceutical company.

In November 2001, we signed a second definitive licensing agreement with Aventis, this time for two new formulations of the antihistamine with decongestant, Allegra-D®, incorporating Labopharm's controlled-release technology, Contramid®. Under the agreement, Labopharm will receive milestone payments and royalties on product sales of the new formulations. Allegra® is Aventis' flagship product, indicated for the treatment of seasonal allergic rhinitis, with global sales of more than US\$1 billion.

### **Greenshoe Exercised in Bought-Deal Financing**

In November 2001, we announced the completion of a \$40.4 million bought-deal financing led by Research Capital Corporation, including CIBC World Markets Inc., National Bank Financial Inc. and

TD Securities Inc. Due to demand, the size of the financing was significantly increased from the original \$27 million figure. We will use the funds primarily for research and development of our existing technologies and for the acquisition and development of complementary technologies and products.

### **Tramadol Development on Schedule**

During the quarter, we continued to move forward with the clinical development of once-a-day Contramid® Tramadol, our leading in-house product candidate for the treatment of moderate-to-severe pain. Current sales of Tramadol exceed US\$1 billion worldwide. The pivotal pharmacokinetic and efficacy studies that will be used to file a New Drug Application (NDA) are proceeding on schedule. The Company expects to file an NDA in Europe by the end of this year and in the U.S. in 2003.

### **New European Subsidiary in Ireland**

Following the close of the quarter, Labopharm announced the establishment of a new European subsidiary, Labopharm Ireland Limited, in Dublin, Ireland. The Dublin office will initially facilitate the filing of a New Drug Application (NDA) for Tramadol in Europe. Over the longer term, the subsidiary will facilitate the commercialization of the Company's products in Europe, the second largest pharmaceutical market in the world. We remain well positioned to introduce our first products in Europe by 2004.

### **New Board Members**

Labopharm welcomed Mr. Jacques Roy to its Board of Directors on September 28, 2001. Prior to becoming a consultant specializing in mergers and acquisitions, Mr. Roy was the Vice-President, Business Development, Mergers and Acquisitions at ABB Inc. (Canada). More recently, the Company also announced the appointment of Mr. Anthony Playle to its Board of Directors and, following the close of the quarter, to the board of its new European subsidiary in Ireland. Mr. Playle brings significant European and international experience to Labopharm's boards, having held senior management positions with several large multinational corporations.

### **Financial Results**

For the third quarter, ended November 30, 2001, revenue was \$752,000 compared with \$745,100 for the same period last year, while revenue for the first nine months totalled \$1,161,800 compared with \$1,651,400 in fiscal 2001. Research and development contracts generated \$561,000 in revenue compared with \$560,300 for the corresponding quarter last year. For the first nine months, these contracts generated \$619,100, compared with \$1,351,300 for the same period last year. Last year's revenues included the initiation of the Aventis feasibility and formulation contracts as well as payments from Sepracor for the completion of Phase II trials on oral Xopenex™ (levabuterol HCl). Interest income grew to \$191,000 in the third quarter of fiscal 2002, compared with \$184,800 for the same period last year. For the first nine months of fiscal 2002, interest income increased to \$542,700 compared with \$300,100 for the same period in fiscal 2001.

Research and development costs (net of tax credits) amounted to \$1,451,800 for the third quarter this year, totalling \$3,576,500 for the first nine months, a 41% increase over the same period last year, reflecting the development of the Company's clinical trial program.

General and administrative expenses amounted to \$985,700 for the third quarter compared with \$624,900 for the same period last year, reflecting the costs associated with the execution of licensing agreements, as well as costs relating to the opening of an office in Ireland. Selling and administrative expenses for the first nine months were \$2,637,600 compared with \$1,929,000 for the same period a year earlier.

The Company's net loss was \$1,688,300 in the third quarter, or \$0.07 per share, compared with \$698,100, or \$0.03 per share, for the same period last year. The increase was the result of an intensified research and development program, relating primarily to the clinical development of Tramadol. For the first nine months of the current fiscal year, the net loss increased to \$5,060,300 compared with \$2,810,400 a year earlier, or \$0.20 and \$0.14, respectively. This increase is principally attributable to the development of Labopharm's clinical trial program, costs associated with a market analysis of the Company's product portfolio potential and licensing activities.

Cash and investments at the end of the third quarter were \$47.5 million, compared with cash of \$14.4 million for the same period last year, reflecting the net proceeds of the November 2001 bought-deal financing of \$38.5 million.

### **Future Outlook**

With the milestones reached in the third quarter, we have entered a new phase in the growth of the Company. We have the resources to advance current projects rapidly and grow the business by adding new products and acquiring complementary technologies. The focus will remain on getting products to market as quickly as possible.

January 15, 2002

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

## Highlights of the Quarter

### Two Global Licensing Agreements in Place with Aventis Pharma for Two Core Brands

#### Aventis & Undisclosed Company

- Agreement with Aventis and undisclosed company to result in significant revenue potential in foreseeable future
- New formulation of branded product with global annual sales in excess of US\$650 million in 2000
- Milestone payments following 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 other company obtain exclusive licenses to utilize Labopharm's Contramid® technology in a specific therapeutic area
- Clinical trial program on schedule

#### Aventis–Allegra®

- Significant revenue potential in foreseeable future
- Two new formulations of the antihistamine with decongestant, Allegra-D®, incorporating Labopharm's controlled-release technology, Contramid®
- Milestone payments and royalties on product sales of new formulations
- Allegra®, with global sales of more than US\$1 billion, indicated for treatment of seasonal allergic rhinitis
- Clinical trials expected to begin in first quarter of fiscal 2003

### \$40.4 Million Financing Concluded—Greenshoe Exercised

- Financing increased from original \$27 million to \$35.1 million
- Syndicate of underwriters fully exercised options, adding \$5.3 million to financing, which concluded November 29, 2001

### New European Subsidiary

- Wholly-owned subsidiary, Labopharm Ireland Limited, established following close of quarter
- Subsidiary will aid in commercialization of Company's products in Europe

### Contramid®/Tramadol Development on Schedule

- European subsidiary will initially facilitate New Drug Application (NDA) filing for Tramadol in Europe
- Pivotal pharmacokinetic and efficacy studies on schedule

### Labopharm Joins TSE 300 Composite Index

## Statements of Income (unaudited)

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

For periods of:	3 months ended November 30		9 months ended November 30	
	2001	2000	2001	2000
	\$	\$	\$	\$
<b>Operating revenue</b>				
Research and development contracts	561.0	560.3	619.1	1,351.3
Investment income	190.9	184.8	542.7	300.1
	<b>751.9</b>	<b>745.1</b>	<b>1,161.8</b>	<b>1,651.4</b>
<b>Operating expenses</b>				
Research and development expenses (note 2)	1,451.8	814.2	3,576.5	2,525.2
Selling and administrative expenses	985.7	624.9	2,637.6	1,929.0
Finance charges	2.7	4.1	8.0	7.6
	<b>2,440.2</b>	<b>1,443.2</b>	<b>6,222.1</b>	<b>4,461.8</b>
<b>Net loss</b>	<b>(1,688.3)</b>	<b>(698.1)</b>	<b>(5,060.3)</b>	<b>(2,810.4)</b>
<b>Net loss per share*</b>	<b>(0.0654)</b>	<b>(0.0342)</b>	<b>(0.2043)</b>	<b>(0.1387)</b>
<b>* Weighted average number of common shares outstanding</b>	<b>25,803,717</b>	<b>20,392,690</b>	<b>24,767,025</b>	<b>20,255,993</b>
<b>Amortization for the period is:</b>	<b>83.8</b>	<b>70.4</b>	<b>244.2</b>	<b>234.4</b>

## Statements of Cash Flows (unaudited)

(Thousands of dollars)

For periods of:	3 months ended November 30		9 months ended November 30	
	2001	2000	2001	2000
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss	(1,688.3)	(698.1)	(5,060.3)	(2,810.4)
Items not affecting cash				
Amortization	83.8	70.4	244.2	234.4
Loss on disposal of capital assets	—	0.3	—	6.1
	<b>(1,604.5)</b>	<b>(627.4)</b>	<b>(4,816.1)</b>	<b>(2,569.9)</b>
Net change in non-cash working capital items	(201.7)	856.8	107.4	703.4
	<b>(1,806.2)</b>	<b>229.4</b>	<b>(4,708.7)</b>	<b>(1,866.5)</b>
<b>Investing activities</b>				
Acquisition of temporary investments	(36,641.5)	(11,681.9)	(36,641.5)	(12,249.3)
Proceeds of temporary investments	1,150.8	865.1	3,878.0	3,405.0
Acquisition of capital assets	(250.5)	(229.2)	(641.6)	(431.4)
Proceeds from disposal of capital assets	—	3.4	—	3.5
	<b>(35,741.2)</b>	<b>(11,042.6)</b>	<b>(33,405.1)</b>	<b>(9,272.2)</b>
<b>Financing activities</b>				
Reimbursement of capital leases obligations	(1.5)	(1.4)	(4.5)	(24.3)
Proceeds from issuance of capital stock	41,145.0	—	41,666.1	246.3
Issuance costs of capital stock	(1,939.1)	—	(1,946.7)	—
Proceeds from issuance of warrants	—	—	—	12,000.2
Issuance costs of warrants	—	(136.8)	—	(997.1)
	<b>39,204.4</b>	<b>(138.2)</b>	<b>39,714.9</b>	<b>11,225.1</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,657.0</b>	<b>(10,951.4)</b>	<b>1,601.1</b>	<b>86.4</b>
Cash, beginning of period	201.2	11,286.5	257.1	248.7
<b>Cash, end of period</b>	<b>1,858.2</b>	<b>335.1</b>	<b>1,858.2</b>	<b>335.1</b>

## Balance Sheets

(Thousands of dollars)

As at November 30

As at February 28

(Unaudited)

(Audited)

2001

2001

	\$	\$
<b>Assets</b>		
Current assets		
Cash	1,858.2	257.1
Temporary investments	36,185.8	4,981.0
Accounts receivable	387.5	864.6
Tax credits receivable on research and development	1,135.7	608.4
Prepaid expenses	36.1	16.7
	<u>39,603.3</u>	<u>6,727.8</u>
Capital assets	2,861.7	2,406.9
Investments	9,416.8	7,858.1
Future income taxes	176.2	176.2
	<u>52,058.0</u>	<u>17,169.0</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	1,327.9	1,150.8
Current portion of obligations under capital leases	6.7	6.1
	<u>1,334.6</u>	<u>1,156.9</u>
Obligations under capital leases	79.4	27.1
	<u>1,414.0</u>	<u>1,184.0</u>
<b>Shareholders' equity</b>		
Capital stock (note 3)	85,739.6	44,073.6
Deficit	<u>(35,095.6)</u>	<u>(28,088.6)</u>
	<u>50,644.0</u>	<u>15,985.0</u>
	<u>52,058.0</u>	<u>17,169.0</u>

## Statements of Deficit (unaudited)

(Thousands of dollars)

For periods of:

9 months ended November 30

	2001	2000
	\$	\$
Balance, beginning of period	(28,088.6)	(23,328.2)
Issuance costs of warrants	—	(997.1)
Issuance costs of capital stock	(1,946.7)	—
Net loss	(5,060.3)	(2,810.4)
<b>Balance, end of period</b>	<u>(35,095.6)</u>	<u>(27,135.7)</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 \$527,347 and \$558,398 for the 9 months periods ended November 30, 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: 30,589,681 common shares (February 28, 2001 - 24,207,481)

During the 9 months period ending November 30, 2001, 402,200 options were exercised for \$1,301,025 cash (3 months, 232,000 options, \$779,876).

Also, on November 8th 2001, the Company received proceeds from a public offering of 5,200,000 common shares for a gross amount of \$35,100,000. The Company has also granted an over-allotment option for an additional 780,000 common shares for a gross amount of \$5,265,000. The Underwriters exercised their option on November 29, 2001.

## **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

### **Warren Whitehead, CMA**

Chief Financial Officer

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

Director, Corporate Affairs and Secretary

### **Investor Relations**

James R. Howard-Tripp

President and Chief Executive Officer

Warren Whitehead, CMA

Chief Financial Officer

Vincent Lavigne

Director, Investor Relations

### **Stock Exchange Listing**

Toronto Stock Exchange

Trading Symbol: DDS