



QUARTERLY REPORT Q1

FISCAL 2010
FIRST QUARTER



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2010

The following information should be read in conjunction with our unaudited interim consolidated financial statements as at March 31, 2010 and related notes thereto as well as the audited consolidated financial statements and Management's Discussion and Analysis as at December 31, 2009 and related notes thereto. Our unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ["Canadian GAAP"]. These differ in some respects from GAAP in the United States ["U.S. GAAP"]. A reconciliation to U.S. GAAP can be found in note 11 of our unaudited interim consolidated financial statements. The Management's Discussion and Analysis provides a review of the performance of the Company for the three-month period ended March 31, 2010, as compared to the three-month period ended March 31, 2009. This review was performed by management with information available as at May 5, 2010. Additional information relating to the Company, including its Annual Information Form, can be found on SEDAR on www.sedar.com.

Where we say "we", "us", "our", or the "Company" we mean Labopharm Inc. and its subsidiaries unless otherwise indicated. All amounts are presented in thousands of Canadian dollars or other currencies, except per share data, unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward-looking and prospective. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "could", "would", "project", "predict", "potential", "will", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Readers of this document are cautioned not to place undue reliance on our forward-looking statements as a number of factors could

cause future results, conditions, actions or events to differ materially from the operating targets, expectations, estimates or intentions expressed in the forward-looking statements.

Factors that could cause actual results to differ materially include but are not limited to:

- our plans to develop and commercialize product candidates and the timing of these development programs;
- whether we will receive, and the timing and costs of obtaining, regulatory approvals;
- clinical development of our products and product candidates, including the results of current and future clinical trials;
- the benefits of our drug delivery technologies, products and product candidates as compared to others;
- our ability to maintain and establish intellectual property rights in our drug delivery technologies, products and product candidates;
- our need for additional financing and our estimates regarding our capital requirements and future revenues and profitability;
- our estimates of the size of the potential markets for our products and product candidates;
- our selection and licensing of products and product candidates;
- our ability to attract marketing and distribution partners and collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts;
- sources of revenues and anticipated revenues, including contributions from marketing and distribution partners and collaborators, product sales, license agreements and other collaborative efforts for the development and commercialization of products and product candidates;

- our ability to create an effective direct sales and marketing infrastructure for products we elect to market and sell directly;
- the rate and degree of market acceptance of our products;
- the timing and amount of reimbursement for our products;
- the success and pricing of other competing therapies that may become available;
- our ability to hire and retain qualified employees;
- the manufacturing capacity of our third-party manufacturers for our products and product candidates;
- the successful completion of the joint venture transaction with Gruppo Angelini discussed hereafter, the ability of the joint venture to timely launch and market OLEPTRO™ in the United States, and the ability of the joint venture to finance its operations, generate acceptable financial returns, generate positive cash flows or make distributions; and
- other risk factors discussed from time to time in our reports, public disclosure documents and other filings with the securities commissions in Canada and the United States.

A detailed list of the risks and uncertainties affecting us can be found in our Annual Information Form for the year ended December 31, 2009 filed on SEDAR.

The forward-looking statements we make in this Management's Discussion and Analysis reflect our current views with respect to future events and are based upon what we believe are reasonable assumptions as at the date of this document. Except as required by law, we undertake no obligation and do not intend to update these forward-looking statements.

OVERVIEW

We are an international, specialty pharmaceutical company focused on optimizing the performance of existing drugs by incorporating our proprietary, advanced controlled-release technologies. Our lead product, a once-daily formulation of the analgesic tramadol, is being commercialized internationally and we are continuing to pursue additional launches in key markets around the world. Our second product, OLEPTRO™, a novel once-daily formulation of trazodone (a serotonin antagonist reuptake inhibitor) for the treatment of major depressive disorder ["MDD"] has received regulatory approval from the United States Food and Drug Administration ["FDA"] and we are in the process of finalizing the commercialization plan for our product with the intention of launching it in the U.S. market during 2010 through our joint venture with Gruppo Angelini which was announced on April 29, 2010. We have submitted an application for regulatory approval in certain countries in Europe for our third product, a twice-daily formulation that combines the analgesics tramadol and acetaminophen into a single tablet and plan to pursue regulatory approval in other countries. We are also developing a series of abuse- and misuse-deterrent products based on our proprietary

Contramid®-based technology platform. In addition, we have other products in development utilizing our Contramid® or our polymeric nano-delivery system™ ["PNDS™"] technologies.

Our novel once-daily formulation of trazodone, a serotonin antagonist reuptake inhibitor, is intended to provide a new treatment option for patients with MDD that addresses some of the issues with use of existing antidepressants. Treating MDD with antidepressant medications is challenging for physicians because patient response to antidepressant drug therapy varies significantly. Research has shown that as many as 28 percent of patients being treated with antidepressants stop taking their medication within the first four weeks of treatment and as many as 44 percent stop within the first 12 weeks. Reasons for discontinuing antidepressant treatment can include suboptimal efficacy, the exacerbation of symptoms such as sleep disturbance, agitation and sexual dysfunction, and adverse events such as weight gain. In a Phase III placebo controlled study of patients with MDD, our trazodone formulation demonstrated antidepressant efficacy, including rapid onset of therapeutic response, improved overall quality of sleep and a well tolerated adverse event profile, including a rate of sexual dysfunction which was not significantly different than placebo and no weight gain compared to placebo.

On February 2, 2010, our novel once-daily trazodone formulation, which we have branded OLEPTRO™, was approved by the FDA. On April 29, 2010, we entered into an agreement with Gruppo Angelini to establish a joint venture ["Angelini Labopharm"] for the commercialization of OLEPTRO™ in the United States. Angelini Labopharm will be 50 percent owned by each of Gruppo Angelini and us.

As part of the joint venture agreement, we will grant Angelini Labopharm the exclusive right to market and sell OLEPTRO™ in the United States. In exchange, we will receive a total consideration comprised of the following: (i) a 50% ownership interest in Angelini Labopharm valued at US\$26,000 based on Gruppo Angelini's cash contribution to the joint venture; (ii) a cash payment of US\$26,000 from Angelini Labopharm upon completion of the joint venture agreement; and (iii) in addition, we are eligible to receive up to US\$40,000 from Angelini Labopharm upon OLEPTRO™ achieving certain sales milestones (or US\$20,000 after giving effect to our 50% participation in the joint venture).

Gruppo Angelini and Labopharm [the "Partners"] will each initially contribute US\$14,000 to Angelini Labopharm to fund a total of US\$28,000 in initial working capital to support the launch of OLEPTRO™ in the United States. The ongoing cash requirements of Angelini Labopharm will be reviewed on a quarterly basis and the Partners will jointly make additional contributions as required and as mutually agreed upon. The Partners will each be entitled to 50% of the joint venture's net income and, as of September 30, 2011, all excess cash flows will be distributed to the Partners on a quarterly basis.

As a result of the joint venture agreement, the 2007 cross-licensing agreement between Gruppo Angelini and Labopharm will be amended such that the royalty on end user net sales in the United States to be paid by us to Gruppo Angelini is 1.5% on end user net sales in excess of US\$50,000. In addition, we will pay Gruppo Angelini a royalty of 5% on the up-front and milestone payments received in excess of US\$40,000.

Upon completion of the transaction, Angelini Labopharm will reimburse us for certain of the pre-launch expenses that we have paid in 2010 related to the launch of OLEPTRO™ in the United States. The transaction is expected to be completed by the end of May 2010 and is subject to conditions customary to such transactions.

In October 2009, our New Drug Submission in Canada for OLEPTRO™ was accepted for review with a targeted action date of August 4, 2010. We also plan to seek regulatory approval in other countries.

Our commercialization program for our once-daily tramadol product recognizes three markets – the United States, Europe and the rest of the world – in each of which we are marketing our product, primarily through licensing and distribution arrangements with international or local pharmaceutical companies. To date, we have entered into agreements for the marketing and distribution of our product in the United States, several European countries, Canada, South Korea, Australia, Israel, Turkey, and Brazil, among others. In addition, in March 2010 we completed a licensing and distribution agreement for our once-daily tramadol product with Nippon Shinyaku Co., Ltd. of Japan [“Nippon Shinyaku”]. Under the terms of the agreement, Nippon Shinyaku has the exclusive right to market and sell our once-daily tramadol product in Japan. We will supply Nippon Shinyaku with unpackaged tablets and will receive a fixed transfer price, as well as a royalty on net sales of the product. Regulatory approval in Japan may require additional clinical trials and Nippon Shinyaku will assume all costs related to the clinical and regulatory approval process. We will receive an up-front payment as a result of the signature of the agreement and are eligible to receive additional payments related to the achievement of certain regulatory and commercialization milestones. Our once-daily tramadol product is currently being marketed and sold in 19 countries, including the United States, Canada, major European markets and Australia. During the first quarter of 2010, our product was launched in Switzerland by our licensing and distribution partner Gebro Pharma AG under the brand name Tramactil Uno and in Portugal by our licensing and distribution partner Kironfarma - Productos Farmacêuticos, Lda under the brand name Tridural. We are pursuing licensing and distribution agreements for other markets around the world and are in discussion with potential partners to commercialize our product in other jurisdictions.

Our twice-daily formulation of tramadol and acetaminophen is designed to improve patient benefit by extending the duration of pain relief beyond that of the currently marketed immediate-release products. Leveraging our Contramid® technology’s ability to control the release of two active ingredients simultaneously, we believe that our twice-daily formulation of tramadol-acetaminophen, in addition to providing immediate relief of moderate to moderately severe pain, can also provide sustained relief for a full 12-hour period, allowing patients to enjoy pain relief all day and all night by taking just one pill in the morning and one pill in the evening.

In December 2009, we initiated the regulatory approval process for our twice-daily tramadol-acetaminophen formulation in Europe under the Decentralized Procedure [“DCP”] through the submission of a marketing authorization application with a Reference Member State (Iceland). The DCP provides an efficient mechanism that allows a company to simultaneously

pursue regulatory approval for a medicinal product in multiple jurisdictions in Europe. The regulatory authorities of both Reference Member State and Concerned Member States will achieve consensus regarding approval of the product and all Member States grant national Marketing Authorizations thereafter based upon that consensus decision. In October 2009, we completed an exclusive distribution and supply agreement with Grünenthal GmbH [“Grünenthal”] for a certain number of countries in Europe, under which we will supply Grünenthal with unpackaged tablets and will receive a fixed price generating a gross margin. We are currently in discussion with Grünenthal to potentially expand our agreement to include additional European countries. We have also initiated discussions with potential marketing and distribution partners in Canada, as well as other countries around the world where we also plan to seek regulatory approval, and are currently evaluating the merits of our dossier for filing in the U.S. and Canada.

The pharmacokinetic study for our twice-daily tramadol and acetaminophen combination formulation demonstrated that the acetaminophen component of the formulation rapidly achieved blood plasma levels associated with efficacy in the currently marketed product, followed by controlled-release characteristics. Consequently, we initiated development of a twice-daily formulation of acetaminophen for the sustained relief of mild to moderate pain. In August 2009, we entered into an agreement under which we are engaged to develop, manufacture, package and supply product prototypes of a twice-daily acetaminophen tablet formulation for a third-party pharmaceutical company, using our proprietary controlled-release technology, Contramid®. If our formulation is successful, the agreement provides an option to the pharmaceutical company to license the technology for worldwide rights, the terms of which would need to be mutually agreed to.

Controlled-release medications offer significant value to patients. However, the abuse and misuse of some of these products, in particular some widely prescribed analgesics, is a serious and growing problem that can result in potentially dire consequences for patients and which creates significant risk for drug manufacturers. We believe the novel properties of our abuse- and misuse-deterrent technology platform, INTELLITAB™, will allow us to address not only intentional abuse of these drugs but also accidental misuse by legitimate patients, by far the larger of the two at-risk user groups. In addition, we believe our technology can be applied to combination drug products such as analgesics that contain active ingredients for both immediate and sustained pain relief.

In April 2010, we reported positive pilot pharmacokinetic [“PK”] study results for our first product based on our INTELLITAB™ platform, a twice-daily, abuse- and misuse-deterrent formulation of the analgesic product that combines oxycodone-acetaminophen in a single tablet. The study was a randomized, three-way cross-over study to compare the PK profile of a single dose of our INTELLITAB™-based oxycodone-acetaminophen formulation with two doses of immediate release oxycodone-acetaminophen, as well as to determine the effect of crushing our INTELLITAB™-based oxycodone-acetaminophen formulation on its PK profile. The results of the study demonstrated that our extended release, INTELLITAB™-based oxycodone-acetaminophen formulation met the regulatory requirements for bioavailability compared to the same dose of the immediate release formu-

lation administered six hours apart, as well as controlled release of both oxycodone and acetaminophen over a 12-hour period. Importantly, the study also demonstrated the ability of INTELLITAB™ to control the release of oxycodone when crushed, such that bioequivalent exposure is achieved and controlled release properties are maintained. Based on these results, we look forward to initiating the pivotal clinical trial program on our formulation, as well as exploring opportunities to possibly partner with pharmaceutical companies on this product, as well as other potential products for which applying the INTELLITAB™ platform may be beneficial.

In addition to those products based on our Contramid® technology, we are developing product candidates based on our PNDS™ technology for the delivery of water-insoluble and poorly bioavailable drugs. Our research and development activities to date include proof of concept studies that have been completed for a novel, lipid- and preservative-free formulation of the intravenous anaesthetic propofol using our PNDS™ intravenous platform, as well as for SN-38, a currently intravenously administered colon cancer drug that we have formulated for oral administration using our PNDS™ oral platform. In addition, we have entered into a feasibility study agreement with a third-party under which we agreed to formulate drug compounds of the third-party using our PNDS™ technology.

Our Goal

Our goal is to leverage the commercialization of our products to generate attractive returns for our shareholders. We will do this by advancing our product candidates from the formulation stage through clinical development and regulatory approval to marketing and sales. We believe that full integration can best maximize the value inherent in our technology and product candidates by allowing greater control over the development and commercialization process.

Liquidity

We have incurred substantial operating losses since our inception due in large part to expenditures for our research and development and commercial activities. As at March 31, 2010, we had an accumulated deficit of \$281,882. Our ability to continue to fund our operations is essential and we are constantly monitoring our capital and financial position. In February 2010, we completed a public offering resulting in net proceeds of approximately \$22.0 million, for the issuance of 13,529,412 units, each unit comprised of one of our common shares and a warrant to purchase one-half of a common share. Upon completion of the license agreement with the joint venture created with Gruppo Angelini, we will receive an amount of US\$26,000 of which US\$14,000 will be initially contributed to the joint venture to fund a portion of its working capital requirements. In November 2009, we signed a standby equity distribution agreement [“SEDA”] with YA Global Master SPV LTD [the “Purchaser”] pursuant to which the Purchaser has irrevocably committed to purchase up to \$25,000 of our common shares, at the conditions further described hereafter. As at March 31, 2010, \$24,000 of the SEDA remains available.

Consequently, our committed sources of funds, our cash and cash equivalents on hand, and our anticipated revenue from the commercialization of our products are expected to be sufficient to meet our committed cash obligations and expected level of expenses beyond March 31, 2011. In light of the inherent uncertainties associated with the ability to secure licensing or distribution agreements, the commercialization of products including the impact of generic threats, research and development programs, the results of clinical trials, and the receipt of regulatory approval of certain products, it may be necessary for us to either (i) seek to raise additional funds for the continuing development and marketing of our products, or (ii) further delay or scale-back our commercial or development programs or other activities.

Revenue

Revenue from product sales, the gross margin thereon, and royalties will be key drivers of our performance as we pursue our activities. Through our license and distribution agreements, we expect to continue to launch our products and increase sales in various markets throughout 2010 and beyond, including OLEPTRO™ in the United States. Since 2003, we have secured distribution and license agreements for the marketing and distribution of our once-daily tramadol product and our twice-daily formulation of tramadol and acetaminophen product, that cover a number of countries, and which have generated a combined \$47,281 to date in licensing payments. Furthermore, as previously discussed, we should shortly receive US\$26,000 in cash as a result of the exclusive license agreement for OLEPTRO™ granted to Angelini Labopharm.

Under our agreement with Purdue Pharma Products L.P. [“Purdue Pharma”] for the marketing of our once-daily tramadol product in the United States market under the brand name RYZOLT™, we have agreed to supply finished packaged product at our cost to Purdue Pharma, for which we have and will be recording revenue from product sales generating essentially no gross margin. Our agreement with Purdue Pharma provides for a 20% royalty on their net sales.

Selling, General and Administrative Expenses

As we expand our operations in order to become an international commercial organization with significant product sales, our selling, general and administrative expenses should increase as we build our infrastructure for our sales, marketing, manufacturing, and product support efforts. These incremental costs to support increasing commercial operations and product sales are necessary in order for us to remain an international organization with increasingly diverse operations, as we expand our primary focus to include not only research and development activities, but also a more significant role in the commercialization and marketing of our products.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the three-month period ending March 31, 2010.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. We have identified certain critical accounting policies that we believe require application of management's most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The critical accounting policies and estimates remain substantially the same as reported in our Management's Discussion and Analysis for the year ended December 31, 2009, which is included in our 2009 annual report.

RESULTS OF OPERATIONS

Fluctuations in Operating Results

Our results of operations have fluctuated significantly from period to period in the past and are likely to do so in the future. We anticipate that our quarterly and annual results of operations will be impacted for the foreseeable future by several factors, including the timing of approvals to market our products in various jurisdictions and resulting product sales, the timing and amount of payments received pursuant to our current and future collaborations with third-parties, and the progress and timing of expenditures related to our research, development and commercialization efforts. The following provides explanations on fluctuations of our results of operations.

Revenue

For the three-month period ended March 31, 2010, total revenue amounted to \$4,693 compared to \$4,957 for the three-month period ended March 31, 2009.

For the three-month period ended March 31, 2010, product sales of our once-daily tramadol product were \$3,228, a \$574 reduction compared to \$3,802 in product sales recorded for the three-month period ended March 31, 2009. This reduction is primarily explained by a \$353 decrease due to the unfavourable year over year variance in the exchange rate of the Euro compared to the Canadian dollar as a significant portion of our sales are denominated in Euros. Our product sales for the quarter were also affected by a \$406 reserve for future price adjustments associated with the sampling program of one of our customers. No product sales were recorded for the U.S. market during the three-month period ended March 31, 2010 or 2009.

During the three-month period ended March 31, 2010, we recognized licensing revenue of \$594, representing a portion of the licensing payments received from our marketing and distribution partners under our license and distribution agreements for our once-daily tramadol product, as well as our tramadol-acetaminophen combination product. Licensing revenue for the three-month period ended March 31, 2009 was \$1,155. The decrease is primarily due to the increase, as of January 1, 2010, of the estimated term over which we are recognizing the balance of the up-front payment of the

US\$20 million received from Purdue Pharma in 2005. This up-front payment is recognized on a straight-line basis over the estimated term during which we have substantive contractual obligations to Purdue Pharma, namely the ongoing supply of product at cost now estimated to be until December 2013. Previously, this contractual obligation was for an eighteen-month period post launch which was estimated to end in November 2010. Prior to January 1, 2010, we were recognizing \$867 per quarter as licensing revenue with respect to this up-front payment; following this change in estimate the amount will be \$199 per quarter.

During the three-month period ended March 31, 2010, we recorded \$600 of royalties from the sale of RYZOLT™ in the U.S., while there was no royalty in the corresponding period last year as the product was only launched in May 2009.

Revenue from research and development collaborations amounted to \$271 for the three month period ended March 31, 2010, and was related to two agreements: i) a prototype development and option agreement under which we are developing a twice-daily acetaminophen tablet formulation for a third-party pharmaceutical company, and ii) a feasibility study agreement with a third-party under which we will be formulating a number of its drug compounds using our PNDST™ technology.

Cost of Goods Sold

For the three-month periods ended March 31, 2010 and 2009, cost of goods sold (excluding amortization) was \$1,453 and \$1,393, respectively. Our cost of goods sold consists primarily of raw materials, third-party bulk tablet manufacturing costs, third-party packaging costs and a royalty expense for our once-daily tramadol product.

FOR THE THREE MONTHS ENDED MARCH 31, <i>(in thousands of dollars)</i>	2010	2009
Product sales	3,228	3,802
Cost of goods sold	1,453	1,393
Gross margin	1,775	2,409
Gross margin %	55%	63%

For the three-month period ended March 31, 2010, the decrease in our gross margin percentage compared to the corresponding period in 2009 reflects the following: (i) a lower average selling price per tablet due to a lower Euro to Canadian dollar exchange rate in the three-month period ended March 31, 2010 compared to the corresponding period in 2009; (ii) the \$406 reserve for future price adjustments recorded as a reduction in revenue in the three-month period ended March 31, 2010 as discussed previously, and (iii) during the three-month period ended March 31, 2009, we reversed a write-down, taken in 2007, of a deposit made to a vendor for the manufacturing of our once-daily tramadol product, and as a result recorded an amount of \$240 as a reduction of cost of goods sold.

Our gross margin will also vary primarily as a result of selling prices in various jurisdictions, currency fluctuations, inventory write-offs, the range of royalty rates payable by territory, as well as the effect of packaging formats and the size of packaging runs on our cost of goods sold.

Research and Development Expenses

Research and development expenses (before government assistance) for the three-month period ended March 31, 2010 were \$2,465 compared to \$4,283 for the three-month period ended March 31, 2009. The decrease is primarily due to lower clinical trial expenses, as well as various cost-reduction initiatives including the reduction in workforce announced in November 2009. In the first quarter of 2009, clinical trial costs were considerably higher as we completed our Phase III clinical trial for our twice-daily formulation that combines the analgesics tramadol and acetaminophen (06CCL3-001), as well as a pharmacokinetic study for our once-daily trazodone formulation.

Provincial refundable research and development tax credits for the three-month period ended March 31, 2010 were \$300, unchanged from the corresponding period last year.

Our once-daily formulation of trazodone and our INTELLITAB™ platform are the two most significant projects that have not yet generated significant operating revenue. A detailed description of the development stage of these projects, the type of expenditures made and to be made, and the plan to take these projects forward are included in the Overview section.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three-month period ended March 31, 2010 were \$7,333 compared to \$6,768 for the three-month period ended March 31, 2009, an increase of \$565 or 8%. The increase is primarily due to approximately \$2,300 of pre-launch expenses for OLEPTRO™ as we prepare to launch our recently approved once-daily trazodone formulation in the third quarter of this year. Significant costs were incurred with respect to the recruitment and deployment of a targeted medical science liaison group, the evaluation and selection of a third-party logistics services provider, our managed care initiatives, our state licensing process, initiating the sales force recruitment using a contract sales organization, sales training modules, various marketing activities such as positioning and messaging, master visual aids, patient brochure, market research attendance, planning of convention presence, public relations, message development, media training, and other related pre-launch activities. Following our joint venture agreement with Gruppo Angelini announced on April 29, 2010, our pre-launch expenses related to OLEPTRO™ will be reimbursed by the joint venture in which we have a 50% share. The increase in selling, general and administrative due to the OLEPTRO™ pre-launch expenses was partially offset by significant reduction in other areas including: (i) a \$399 reduction in our share of patent defense litigation costs with respect to our once-daily tramadol product in the United States in the three-month period ended March 31, 2010 compared to the corresponding period in 2009; (ii) the elimination of our pilot scale sales force in the United Kingdom as a result of our license and distribution agreement with Merck Sharp & Dohme Limited ["MSD"] announced in December 2009; (iii) a \$190 reduction in non-cash stock based-compensation expense primarily due to a lower number of options being granted in 2010 compared to the correspond-

ing period in 2009; and (iv) a reduction in the use of various consultants in other areas, as well as other cost reduction initiatives, including the reduction workforce announced in November 2009.

Financial Expenses

Financial expenses for the three-month period ended March 31, 2010 were \$1,097 compared to \$1,014 for the three-month period ended March 31, 2009. The increase is primarily attributable to the interest on our share of patent defense litigation costs payable to Purdue Pharma.

Interest Income

Interest income for the three-month period ended March 31, 2010 was \$168 and included an amount of \$150 reflecting an increase in the estimated fair value of our long-term investment. This increase in the estimated fair value is primarily due to the discount rate used to evaluate the long-term investment and the passage of time, as well as the recalibration of our discounted cash flow model to reflect current observable market data. Interest income for the three-month period ended March 31, 2009 was \$187 and did not include any adjustment to the fair value of our long-term investment.

Foreign Exchange Gain (Loss)

For the three-month period ended March 31, 2010, we recorded a foreign exchange loss of \$635, compared to a gain of \$503 for the three-month period ended March 31, 2009. The foreign exchange loss in the three-month period ended March 31, 2010 is primarily due to the foreign exchange loss on the excess cash temporarily held in U.S. currency following our equity financing completed in February 2010, partially offset by the foreign exchange gain recorded on our long-term debt and other payables denominated in U.S. dollars. The foreign exchange gain in the three-month period ended March 31, 2009 is due primarily to the realized gain on the maturity of marketable securities denominated in U.S. dollars partly offset by the strengthening of the U.S. dollar versus the Canadian dollar and the unfavourable impact this fluctuation had on our long-term debt denominated in U.S. dollars. As at March 31, 2010, we held US\$5,799 of marketable securities for which an unrealized foreign exchange loss of \$182 is included as an element of accumulated other comprehensive income. Once these investments mature in 2010, any realized gain or loss will then be recorded into income.

Net Loss and Net Loss Per Common Share

Net loss for the three-month period ended March 31, 2010 was \$8,257 or \$0.13 per common share, compared with \$7,974 or \$0.14 per common share, for the three-month period ended March 31, 2009. The increase in net loss is primarily the result of lower revenues, higher selling, general and administrative expenses, and unfavourable foreign currency fluctuation, offset in large part by lower research and development expenses.

QUARTERLY INFORMATION

The following selected financial information is derived from our unaudited quarterly financial statements for each of the last eight quarters.

	THREE MONTHS ENDED							
	MARCH 31, 2010	DEC. 31, 2009	SEPT. 30, 2009	JUNE 30, 2009	MARCH 31, 2009	DEC. 31, 2008	SEPT. 30, 2008	JUNE 30, 2008
Product sales	3,228	4,664	5,187	4,827	3,802	3,278	3,863	3,859
Licensing	594	1,238	1,191	1,318	1,155	1,155	5,576	1,064
Royalties and other	871	819	247	124	—	—	—	—
Total revenue	4,693	6,721	6,625	6,269	4,957	4,433	9,439	4,923
Net loss ¹	(8,257)	(6,358)	(6,904)	(4,874)	(7,974)	(14,625)	(6,017)	(10,253)
Basic and diluted net loss per common share	(0.13)	(0.11)	(0.12)	(0.09)	(0.14)	(0.26)	(0.11)	(0.18)

¹ As restated to consider Handbook Section 3064, *Goodwill and Intangible Assets* which was adopted retroactively in 2009 with restatement of prior fiscal periods.

Product sales of our once-daily tramadol product have tended to be variable over the last eight quarters. End users sales of our product have generally been trending upwards as we have continued to launch our once-daily tramadol product in various territories, and sales volume have generally increased in launched countries as our product continues to gain market share in most of these markets. In 2009, the increases in the second and third quarters were primarily the result of the launch of our product in the U.S. Certain markets, however, are underperforming, including the U.S., and we are working with our distributors to address the various market dynamics in these countries. As previously discussed, product sales for the three-month period ended March 31, 2010 were also negatively affected by a relatively lower Euro to Canadian currency exchange rate compared to previous quarters. Quarterly product sales can also be affected occasionally by particular reserves for price adjustments once they are committed to by us.

Licensing revenue has generally been stable quarter to quarter as any licensing payments received are generally recognized straight-line over the term of the underlying agreement. A non-recurring licensing revenue was realized in the third quarter of 2008 when we reacquired the rights to our once-daily tramadol product in the United Kingdom from Recordati Ireland Ltd. As previously discussed, as of January 1, 2010, a change in the estimated period over which we are recognizing the balance of the up-front payment received from Purdue Pharma, considerably reduced the licensing revenue for the three month-period ending March 31, 2010.

Net loss has been variable over the last eight quarters, and is impacted primarily by the level of our research and development spending, and, more recently, by the volatility in our share of patent litigation fees as invoiced to us by Purdue Pharma on a quarterly basis, since the second quarter of 2008, and the level of our selling, general and administrative expenses, particularly with the pre-launch expenses with respect to OLEPTRO™, as well as the foreign exchange gain or loss incurred primarily as a result of the high volatility of the U.S. currency versus the Canadian dollar and the effect this had on the carrying value of our long-term debt, marketable securities, and cash denominated in U.S. dollars, and the resulting impact on our results of operations.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

We have incurred substantial operating losses since our inception due in large part to expenditures for our research and development activities. As at March 31, 2010, we had an accumulated deficit of \$281,882. To date, we have financed our cash requirements primarily through share issuances, debt financing, licensing revenue, product sales, royalties, research and development tax credits, collaborative research contracts and interest income.

In June 2009, we amended our debt facility agreement with Hercules. Under the amended agreement, we have postponed the date from which we are required to begin repaying principal on the loan from July 1, 2009 to July 1, 2010, and have changed the maturity date of the loan from December 1, 2011 to June 1, 2012. As of July 1, 2010, monthly payments for principal and interest will be US\$932.

On November 24, 2009, we entered into a standby equity distribution agreement [“SEDA”] with YA Global Master SPV LTD [the “Purchaser”] pursuant to which the Purchaser has irrevocably committed to purchase up to \$25,000 of our common shares provided that in no event may we sell more than the lower of (i) 11,426,533 of our common shares, and (ii) 19.9% of our issued and outstanding common shares at any given time, unless we obtain the approval of our shareholders pursuant to the rules of the TSX and the Nasdaq, and any required regulatory approval. Until November 24, 2012, we have the right, but not the obligation, to sell common shares to the Purchaser. From time to time during the term of the agreement, and at our sole discretion, we may present the Purchaser with draw-down notices of up to \$2,000 at a time, requiring the Purchaser to purchase our common shares. The per share purchase price for these shares will equal the daily volume weighted average price of our common shares on each date during a ten-day pricing period, subject to a minimum price which we may establish at the time of the draw-down notice, less a discount of 5.0% if the share purchase price is less than \$3.00, 4% if the share purchase price is equal to or above \$3.00 but less than \$6.00, and 3.5% if the share purchase price is equal to or above \$6.00. On January 7, 2010, pursuant to a draw-down notice presented to the Purchaser on December 20, 2009, we received \$1,000 from the Purchaser and issued 482,165 shares, for an average price of \$2.07 per share after discount. As at March 31, 2010, \$24,000 of the SEDA is still available.

In February 2010, we completed a public offering resulting in net proceeds of approximately \$22,046, for the issuance of 13,529,412 units, each unit comprised of one of our common shares and a warrant to purchase one-half of a common share. The combination of two warrants entitles the holder to acquire one common share upon payment of US\$2.30 per share, exercisable at any time during the period beginning six months and ending three years following the date of issuance.

Cash, cash equivalents and marketable securities totalled \$43,280 as at March 31, 2010 compared to \$24,504 as at December 31, 2009, an increase of \$18,776, primarily as a result of the equity financing completed in February 2010 net of the funds used in operating activities. The investment of our funds is governed by our corporate investing policy, which monitors the safety and preservation of principal and which limits the amount invested by issuer and the duration or term of the investment instrument. The primary objectives of our investment portfolio are liquidity and capital preservation. As at March 31, 2010, our marketable securities were issued by an agency of the Canadian Federal government and the U.S. Treasury.

As at March 31, 2010, accounts receivable totalled \$3,631 and consisted primarily of trade receivables. Research and development tax credits receivable totalled \$1,502 and included the estimated refundable tax credits recorded during the year ended December 31, 2009 and the three-month period ended March 31, 2010. Inventories totalled \$2,983 and consisted of raw materials including trazodone in anticipation of the launch of OLEPTRO™ in 2010, and intermediate finished product (primarily bulk tablets of once-daily tramadol). Accounts payable and accrued liabilities totalled \$18,994 as at March 31, 2010 and included trade and other payables, accrued compensation expenses, restructuring costs related to the reduction in our workforce announced in November 2009 which is remaining to be paid, as well as patent litigation costs payable totalling \$9,322. Under a cost-sharing agreement, these patent litigation costs will be settled with 50% of the future royalties earned from the commercialization of our once-daily tramadol product in the United States until such patent litigation costs are fully paid. Any unpaid balance as at December 31, 2010 will then need to be paid. The patent litigation costs payable includes interest payable on the outstanding balance at the Wall Street Journal Prime Rate plus 2%, which was 5.25% as at March 31, 2010. Deferred revenue totalled \$17,685 as at March 31, 2010 and included primarily the unrecognized portion of the licensing fees received from the various licensees of our once-daily tramadol product, and of our twice-daily tramadol-acetaminophen combination formulation. These licensing fees are generally recognized as revenue over the term during which we maintain substantive contractual obligations to the licensee.

Under our current operating plan, considering our recent public equity offering, and the US\$26,000 to be received as part of our joint venture agreement with Gruppo Angelini, we believe that our cash, cash equivalents and marketable securities, anticipated revenue from the commercialization of our products, research and development tax credits, and funds available under our SEDA, should be sufficient to finance our operations and capital needs beyond March 31, 2011. However, in light of the inherent uncertainties associated with the ability to secure licensing or distribution agreements,

the commercialization of products including the impact of generic threats, research and development programs, the results of clinical trials, and the receipt of regulatory approval of certain products, it may be necessary for us to either (i) seek to raise additional funds for the continuing development and marketing of our products, or (ii) further delay or scale-back our commercial or development programs or other activities.

Cash Flows

Funds used in operating activities prior to net changes in other operating items amounted to \$6,440 for the three-month period ending March 31, 2010 compared to \$5,754 for the corresponding period in 2009, increasing primarily as a result of our higher net loss. The impact of net changes in our other balance sheet items related to our operations represented an increase in funds of \$3,613 in the three-month period ended March 31, 2010 compared to funds used of \$2,045 for the corresponding period in 2009. This difference is primarily due to the timing of cash receipts and payments. During the three-month period ended March 31, 2010, our accounts receivable decreased as we collected more than we invoiced, and we also received payment for research and development tax credits claimed in 2008. In addition, our accounts payable increased during the current period as the significant pre-launch expenses of OLEPTRO™ were incurred or accrued towards the end of March 2010 and had not yet been paid.

Funds used in investing activities for 2010 amounted to \$5,197 as a result of investing some of the proceeds for the equity financing completed in February 2010, compared to funds generated of \$11,638 in the corresponding period in 2009, primarily reflecting the proceeds from maturities or disposals of marketable securities net of their reinvestment. Capital expenditures have been kept minimal for the three-month period ended March 31 2010, as they had been for the corresponding period in 2009.

For 2009, funds generated by our financing activities amounted to \$23,322 compared to funds used of \$55 in 2009. The funds generated in 2010 reflect primarily the equity financing completed in February 2010, as well as the \$1,000 drawdown on the SEDA.

OFF-BALANCE SHEET ARRANGEMENTS

To date, we have not had any relationships with unconsolidated entities or financial partnerships, such as entities referred to as structured finance or special purpose entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Letters of credit amounting to \$116 were issued to the lessors of our facilities in Ireland and in the U.S. as collateral for our performance of obligations under the leases. These letters of credit are collateralized by specific investments with an estimated fair value of \$124 which have been classified as restricted investments.

We periodically enter into research, licensing, distribution or supply agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require that we compensate the other party for certain damages and costs incurred as a result

of third-party intellectual property claims or damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the intellectual property indemnification obligations prevents us from making a reasonable estimate of the maximum potential amount we could be required to pay. Historically, we have not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

FINANCIAL INSTRUMENTS

A complete analysis of our financial instruments including their extent, their classification, their carrying value, their fair value including the methods and assumptions used to determine their fair value, as well as a discussion of foreign exchange risk, interest rate risk, credit risk and liquidity risk, including risk sensitivities, can be found in note 24 to the annual consolidated financial statements for the year ended December 31, 2009, as included in our annual report.

OUTSTANDING SHARE DATA

The number of shares outstanding as of May 5, 2010, is 71,571,641 and has increased by 3,700 since March 31, 2010 due to the exercise of stock options.

As at May 5, 2010, 795,152 warrants for the purchase of one common share each at \$0.89 per share were outstanding and exercisable up to December 28, 2012. In addition, pursuant to our public offering completed in February 2010, 13,529,412 warrants, were outstanding, and exercisable starting August 2010 until February 2013, the combination of two warrants allowing the holder to purchase one common share at US\$2.30 per share.

The number of options outstanding as at May 5, 2010, is 5,553,883. Outstanding options have decreased by 147,850 since March 31, 2010 due to the expiry of 314,134 stock options, the forfeiture of 3,766 stock options, the exercise of 3,700 stock options, and the granting of 173,750 stock options.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Canada's Accounting Standards Board has announced that, effective January 1, 2011, International Financial Reporting Standards ["IFRS"] will replace current Canadian GAAP for publicly accountable enterprises. Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. IFRS on the date of adoption are also expected to differ from current IFRS due to new IFRS standards and pronouncements

that are expected to be issued before the changeover date. We plan to prepare our financial statements in accordance with IFRS for periods commencing as of January 1, 2011, when we will prepare both the current and comparative financial information using IFRS. We commenced our IFRS conversion project in 2008.

Pursuant to the October 2008 recommendations of the Canadian Performance Reporting Board relating to pre-2011 communications about IFRS conversion and also to comply with Canadian Securities Administrators Staff Notice 52-320, *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to IFRS*, we present the following information regarding our IFRS changeover plan. This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effects on, for example, our financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

Our plan incorporates six significant items, as follows: (i) accounting policies and financial statement preparation, including choices among policies permitted under IFRS, and implementation decisions such as whether certain changes will be applied on a retrospective or a prospective basis; (ii) information technology and data systems; (iii) internal control over financial reporting; (iv) disclosure controls and procedures; (v) training and communications, including investor relations and external communications plans; and (vi) business activities, such as foreign currency activities, as well as other matters that may be influenced by Canadian GAAP measures. Throughout 2010, we will continue to review remaining standards for their application to our operations, carry out impact assessments and provide targeted training. We will also make accounting policy choices and prepare our accounting system accordingly, to enable preparation of our opening financial position under IFRS for 2010.

Although our impact assessment activities are underway, continued progress is necessary before we can prudently increase the specificity of the disclosure of the impacts of IFRS.

Progress Towards Completion of Our IFRS Changeover Plan

Summarized hereafter is a description of our progress towards completion of selected key activities of our IFRS changeover plan as of March 31, 2010. At this time, we cannot quantify the impact that the future adoption of IFRS will have on our financial statements and operating performance measures; however, such impact may be material. Additional information will be provided as we move towards the changeover date.

	SELECTED KEY ACTIVITIES	MILESTONES/DEADLINES	PROGRESS TO DATE
Accounting policies and financial statement preparation	Identify relevant differences between IFRS and our accounting policies and practices and design and implement solutions	Assessment and quantification of the significant effects of the changeover to be completed by approximately the second quarter of 2010	Preliminary identification of IFRS differences completed by the third-party experts and review by management underway
	Evaluate and select one-time and ongoing accounting policy alternatives	Final selection of accounting policy alternatives by the changeover date	Evaluation and selection of accounting policy alternatives is ongoing
	Benchmark findings with peer companies		Third-party experts are assisting in the transition
	Prepare financial statements and related note disclosures to comply with IFRS		Expected changes in IFRS being monitored
	Quantify the effects of changeover to IFRS		
Information technology and data systems	Identify and address IFRS differences that require changes to financial systems	Changes to significant systems and dual record-keeping process to be completed in time for the second quarter of 2010	No IFRS differences with significant system impacts have been identified to date
	Evaluate and select methods to address need for dual recordkeeping during 2010 (i.e., IFRS and Canadian GAAP) for comparatives and budget and planning purposes in 2011		Dual record-keeping solution design is underway
Internal control over financial reporting ["ICFR"]	Revise existing internal control processes and procedures to address significant changes to existing accounting policies and practices, including the need for dual recordkeeping during 2010	Changes to be completed by the third quarter of 2010 Management evaluation of new or revised controls throughout 2010	Monitoring design of solutions to address IFRS differences to permit concurrent design or revision and implementation of necessary internal controls
	Design and implement internal controls with respect to one-time changeover adjustments and related communications	Update of the Chief Executive Officer/Chief Financial Officer certification process by the fourth quarter of 2010	
Disclosure controls and procedures ["DC&P"]	For changes to accounting policies and practices identified, assess the DC&P design and effectiveness implications	See ICFR deadlines above	Management's Discussion and Analysis disclosures have begun
Training and communication	Provide training to affected employees of operating units and management	Timely training provided to align with work under changeover – training to be completed by mid-2010	Selected training for resources directly engaged in the changeover and general awareness to broader group of finance employees
	Communicate progress of changeover plan to internal and external stakeholders	Communication of the effects of changeover for 2011 financial planning process, by the third quarter of 2010	Periodic internal and external communications about our progress are ongoing Third-party experts are assisting in the transition
Business activities	Identify impact of changeover on contractual arrangements, including customer and supplier agreements, financial covenants and employee compensation plans Make any required changes to arrangements and plans	Changes to be completed by the third quarter of 2010	No potential impact identified to date

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

We have designed disclosure controls and procedures ["DC&P"] to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, is made known to the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer, particularly during the period in which the interim filings are being prepared.

We have designed internal controls over financial reporting ["ICFR"] to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There were no changes in our ICFR that occurred during the period beginning on January 1, 2010 and ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our ICFR.

INTERIM CONSOLIDATED BALANCE SHEETS

[Unaudited]

<i>[thousands of Canadian dollars]</i>	AS AT MARCH 31, 2010 \$	AS AT DECEMBER 31, 2009 \$
ASSETS		
Current		
Cash and cash equivalents	37,355	23,650
Marketable securities <i>[note 3]</i>	5,925	854
Accounts receivable	3,631	4,736
Research and development tax credits receivable	1,502	2,584
Income taxes receivable	12	223
Inventories <i>[note 4]</i>	2,983	2,637
Prepaid expenses and other assets	436	701
Total current assets	51,844	35,385
Restricted investments	124	133
Long-term investment <i>[note 5]</i>	3,035	2,885
Property, plant and equipment	8,251	8,575
Intangible assets	1,951	2,018
Future income tax assets	121	124
	65,326	49,120
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities <i>[note 6]</i>	18,994	18,124
Current portion of deferred revenue	2,549	2,938
Current portion of obligations under capital leases	319	309
Current portion of long-term debt	5,666	3,558
Total current liabilities	27,528	24,929
Deferred revenue	15,136	14,364
Obligations under capital leases	4,950	5,033
Long-term debt	16,453	18,939
Total liabilities	64,067	63,265
Shareholders' equity (deficiency)		
Capital stock <i>[note 7]</i>		
Common shares, no par value, unlimited authorized shares, 71,567,941 and 57,456,364 issued as at March 31, 2010 and December 31, 2009, respectively	260,231	242,316
Warrants <i>[note 7]</i>	6,133	937
Contributed surplus <i>[note 7]</i>	16,959	16,385
Deficit	(281,882)	(273,625)
Accumulated other comprehensive loss	(182)	(158)
Total shareholders' equity (deficiency)	1,259	(14,145)
	65,326	49,120

Contingencies *[note 9]*

Subsequent events *[note 13]*

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

[Unaudited]

FOR THE THREE MONTHS ENDED:	MARCH 31, 2010	MARCH 31, 2009
<i>[thousands of Canadian dollars, except share and per share amounts]</i>	\$	\$
REVENUE		
Product sales	3,228	3,802
Licensing	594	1,155
Royalties	600	—
Research and development collaborations	271	—
	4,693	4,957
EXPENSES		
Cost of goods sold (excluding amortization) <i>[note 4]</i>	1,453	1,393
Research and development expenses, net <i>[note 8]</i>	2,165	3,983
Selling, general and administrative expenses	7,333	6,768
Financial expenses	1,097	1,014
Amortization of property, plant and equipment and intangible assets	434	463
Interest income <i>[note 5]</i>	(168)	(187)
Foreign exchange loss (gain)	635	(503)
	12,949	12,931
Loss before income taxes	(8,256)	(7,974)
Income tax expense	1	—
Net loss for the period	(8,257)	(7,974)
Net loss per share – basic and diluted	(0.13)	(0.14)
Weighted average number of common shares outstanding	64,178,485	56,826,148

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

[Unaudited]

FOR THE THREE MONTHS ENDED: <i>[thousands of Canadian dollars]</i>	MARCH 31, 2010 \$	MARCH 31, 2009 \$
Net loss for the period	(8,257)	(7,974)
Unrealized net gains on marketable securities in prior periods transferred to net loss in the current period	—	(960)
Changes in unrealized losses on marketable securities	(24)	10
Comprehensive loss for the period	(8,281)	(8,924)

INTERIM CONSOLIDATED STATEMENTS OF DEFICIT

[Unaudited]

FOR THE THREE MONTHS ENDED: <i>[thousands of Canadian dollars]</i>	MARCH 31, 2010 \$	MARCH 31, 2009 \$
Balance, beginning of period	(273,625)	(247,515)
Net loss for the period	(8,257)	(7,974)
Balance, end of period	(281,882)	(255,489)

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited]

FOR THE THREE MONTHS ENDED: [thousands of Canadian dollars]	MARCH 31, 2010 \$	MARCH 31, 2009 \$
OPERATING ACTIVITIES		
Net loss for the period	(8,257)	(7,974)
Items not affecting cash		
Amortization of property, plant and equipment	361	422
Amortization of intangible assets	73	41
Amortization of premiums and discounts on marketable securities	7	15
Non-cash interest income [note 5]	(150)	—
Non-cash financial expenses	234	142
Unrealized foreign exchange loss	718	808
Stock-based compensation	574	792
	(6,440)	(5,754)
Net change in other operating items	3,613	(2,045)
	(2,827)	(7,799)
INVESTING ACTIVITIES		
Acquisition of marketable securities	(5,095)	(6,568)
Proceeds from disposals of marketable securities	—	4,420
Proceeds from maturities of marketable securities	—	13,807
Acquisition of property, plant and equipment	(96)	(5)
Acquisition of intangible assets	(6)	(16)
	(5,197)	11,638
FINANCING ACTIVITIES		
Repayment of obligations under capital leases	(73)	(64)
Repayment of long-term debt	(1)	—
Proceeds from issuance of common shares	18,411	9
Proceeds from issuance of warrants	5,429	—
Payment of issuance costs of common shares and warrants	(444)	—
	23,322	(55)
Foreign exchange loss on cash held in foreign currencies	(1,593)	(63)
Net change in cash and cash equivalents during the period	13,705	3,721
Cash and cash equivalents, beginning of period	23,650	8,373
Cash and cash equivalents, end of period	37,355	12,094
Supplemental cash flow information:		
Interest paid	753	701
Income taxes paid (recovered)	(202)	88

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS [Unaudited]

MARCH 31, 2010

[thousands of Canadian dollars, except share and per share amounts]

1. DESCRIPTION OF BUSINESS

Labopharm Inc. [the "Company"], incorporated under the *Companies Act* (Québec), is an international specialty pharmaceutical company focused on improving existing drugs by incorporating its proprietary and advanced controlled-release technologies. The Company develops products internally in order to enter into strategic alliances or licensing agreements with national or international pharmaceutical companies that may have the necessary resources and distribution networks to market and sell its pharmaceutical products.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ["Canadian GAAP"] for interim financial statements. Accordingly, they do not include all of the information and notes required by Canadian GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009 and the accompanying notes, included in the Company's annual report. A reconciliation of significant differences with generally accepted accounting principles in the United States ["U.S. GAAP"] is presented in note 11.

The accounting policies used in the preparation of these unaudited interim consolidated financial statements are the same as those used in the preparation of the Company's most recent annual audited consolidated financial statements, and are set forth in notes 2 and 3 of the consolidated financial statements for the year ended December 31, 2009 included in the Company's 2009 annual report.

3. MARKETABLE SECURITIES

Marketable securities are comprised of the following securities with an average weighted yield of 0.20% [2009 – 0.70%]:

	AMORTIZED COST \$	GROSS UNREALIZED GAINS \$	GROSS UNREALIZED LOSSES \$	ESTIMATED FAIR VALUE \$
As at March 31, 2010				
Maturing within one year				
Government-backed commercial paper	6,107	—	(182)	5,925
	6,107	—	(182)	5,925
As at December 31, 2009				
Maturing within one year				
Government-backed commercial paper	1,012	—	(158)	854
	1,012	—	(158)	854

None of the marketable securities held as at March 31, 2010 or December 31, 2009 have been in an unrealized loss position for more than twelve months. The gross unrealized losses as at March 31, 2010 are primarily related to the marketable securities denominated in U.S. dollars and result from an unfavourable currency fluctuation. The Company considers these gross unrealized losses temporary due to the significant volatility in the exchange rate between the U.S. dollar and the Canadian dollar over the last several quarters. It is however possible that upon maturity or sale of these securities denominated in U.S. dollars, that the U.S. - Canadian dollar exchange rate will not be at the level it was at the time of purchase and that the Company realizes a foreign currency loss.

During the three-month period ended March 31, 2010, as a result of disposal or maturities of available-for-sale marketable securities and the effect of currency fluctuation, gross realized gains amounted to nil [2009 – \$1,273], and gross realized losses amounted to nil [2009 – nil], and were included in the consolidated statements of operations. The cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings is determined by specific identification.

4. INVENTORIES

	MARCH 31, 2010 \$	DECEMBER 31, 2009 \$
Raw materials	1,375	1,567
Intermediate finished goods	1,608	790
Finished goods	—	280
	2,983	2,637

During the three-month period ended March 31, 2010, inventories in the amount of \$1,270 [2009 – \$1,389] were recognized as cost of goods sold, including provisions for write-downs to net realizable value of \$1 [2009 – \$12].

Reversals of write-downs recorded as a reduction of cost of goods sold for the three-month period ended March 31, 2010, amounted to nil [2009 – \$240].

5. LONG-TERM INVESTMENT

As at December 31, 2008, the Company held non-bank sponsored asset-backed commercial paper ["Montreal Proposal ABCP"] with an acquisition cost of \$5,640 and estimated fair value of \$3,178. On January 21, 2009, the Company received in exchange of its Montreal Proposal ABCP long-term investments having a face value of \$5,683, consisting of \$1,748 of Class A-1 Notes, \$3,187 of Class A-2 Notes, \$578 of Class B Notes, and \$170 of Class C Notes [collectively, the "Long-term Notes"], all issued by a trust called Master Asset Vehicle II, and \$200 of accrued interest which was recorded as a reduction of fair value. No gain or additional impairment loss was recorded on the Montreal Proposal ABCP prior to the exchange, as the estimated fair value was similar to the valuation as at December 31, 2008. No gain or loss was recognized on the exchange as the total estimated fair value of the Long-term Notes combined with the interest payment approximated the carrying value of the Montreal Proposal ABCP investment immediately prior to the exchange.

The terms of the Long-term Notes include a floating interest rate equivalent to Bankers' Acceptance rate less 0.50%: (i) payable on a quarterly basis for the Class A-1 Notes and Class A-2 Notes, (ii) which will be accrued for the Class B Notes and will be paid on maturity only after repayment in full of the Class A-1 Notes and Class A-2 Notes, and (iii) which will be accrued for

the Class C Notes and will be paid on maturity only after repayment in full of the Class B Notes. The Long-term Notes have a legal maturity in 2056, although it is generally understood that the preponderance of the underlying assets supporting the Long-term Notes have a maturity of seven to nine years from their issuance. The Company has designated the Long-term Notes as held-for-trading.

On March 31, 2010, the Company remeasured its Long-term Notes at fair value. During this valuation, the Company reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the three-month period ended March 31, 2010, a limited number of transactions were entered into in respect of the investments in Long-term Notes. However, the Company did not take these transactions into account in measuring the fair value of its Long-term Notes since, in its opinion, there were too few of them to meet the definition of an active market.

Once Long-term Notes begin trading in an active market again, the Company will review its valuation assumptions accordingly.

Given the lack of an active market, the Company currently estimates the fair value of the Long-term Notes by discounting their estimated future cash flows considering the terms of the Long-term Notes and other observable market data. The valuation technique used by the Company to estimate the fair value of the Long-term Notes is consistent with the method used at prior reporting dates. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the Long-term Notes. The Company estimates that the Long-term Notes will generate interest returns ranging from 0.00% to 2.00% until their maturity which is assumed to be at the end of 2016. A discount rate of 8.30% was used for the Class A-1 Notes, 10.80% for the Class A-2 Notes, and 21.80% for the Class B Notes, resulting in a weighted average discount rate of approximately 11.20%. The discount rates consider factors including yields of instruments with similar maturities and credit ratings, premiums for lack of liquidity, uncertainty of future payments and potential credit losses, lack of transparency and nature of the underlying assets. The fair value of the Class C Notes is estimated to be nil due to the significant uncertainty as to the ultimate collectability of these Notes as a result of their estimated credit risk. As at March 31, 2010, based on the Company's valuation model, the fair value of the Long-term Notes is estimated to be approximately \$3,035. Consequently, during the three-month period ended March 31, 2010, the Company recorded in interest income an increase in the fair value of its Long-term Notes of \$150 [2009 – nil].

The following table details the change in balances of long-term investment in the consolidated balance sheet:

	CARRYING VALUE
	\$
As at December 31, 2009	2,885
Increase in estimated fair value	150
As at March 31, 2010	3,035

As the fair value of the Long-term Notes is determined using a number of assumptions and is based on the Company's assessment of market conditions as at March 31, 2010, their fair values reported in subsequent periods may change materially. The most significant variable in the valuation of the Company's Long-term Notes is the discount rate or the yield that prospective investors will require. The Company conducted a sensitivity analysis

of the potential yield requirements which resulted in an estimated fair value of its Long-term Notes ranging from \$2,698 to \$3,302. A 1.0% increase in the weighted average discount rate would decrease the fair value of the Long-term Notes by approximately \$270.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	MARCH 31, 2010	DECEMBER 31, 2009
	\$	\$
Trade payables and accruals	5,578	4,948
Patent defense litigation costs	9,322	9,479
Accrued payroll and related expenses	2,090	1,903
Restructuring costs payable	313	473
Other	1,691	1,321
	18,994	18,124

Under a cost-sharing agreement, the patent defense litigation costs will be settled with 50% of the future royalties earned from the commercialization of the Company's once-daily tramadol product in the U.S. until such costs are fully paid. Any unpaid balance as at December 31, 2010 will then need to be settled. The provision for patent defense litigation costs bears interest at the Wall Street Journal Prime Rate plus 2%, or 5.25% as of March 31, 2010. It is currently not possible to reasonably estimate the amount of any future patent litigation costs related to this matter.

7. SHAREHOLDERS' EQUITY

Capital stock transactions

During the three-month period ended March 31, 2010, pursuant to the draw-down notice presented to YA Global Master SPV LTD [the "Purchaser"] on December 20, 2009 with respect to the standby equity distribution agreement ["SEDA"], the Company received an amount of \$1,000 from the Purchaser and issued 482,165 shares, for an average price of \$2.07 per share after discount, thereby increasing the capital stock by \$1,000. Share issuance costs amounted to \$23.

In February 2010, the Company completed a secondary public offering resulting in gross proceeds of \$22,751, for the issuance of 13,529,412 units. Each unit is comprised of one common share and a warrant to purchase one-half of a common share. The issuance costs of the units are estimated at \$705. The net proceeds were allocated to capital stock and warrants based on their relative fair values. The fair value of the warrants was estimated using the Black-Scholes option pricing model using a volatility of 106%, expected life of 3 years and a risk-free interest rate of 1.23%. As a result of this public offering, capital stock was increased by \$16,785 and warrants increased by \$5,261.

During the three-month period ended March 31, 2010, 100,000 warrants were exercised for a cash consideration of \$89. In addition, capital stock was increased by \$153 and warrants decreased by \$64.

During the three-month period ended March 31, 2010, no [2009 – 7,633] stock options were exercised for a total cash consideration of nil [2009 – \$9]. In addition, capital stock was increased by nil [2009 – \$16] and contributed surplus was reduced by nil [2009 – \$7].

7. SHAREHOLDERS' EQUITY [CONT'D]

Warrants

In December 2007, as part of an amendment to the term loan agreement, the Company issued 1,460,152 warrants to purchase one common share per warrant at an exercise price of \$0.89. These warrants expire on December 28, 2012, and 795,152 warrants are outstanding and exercisable as at March 31, 2010.

As part of the public offering completed in February 2010, 13,529,412 warrants are outstanding and exercisable starting in August 2010 (six months from original date of issuance) and expiring in February 2013 (three years from original date of issuance). The combination of two warrants entitles the holder to acquire one common share upon payment of US\$2.30.

Stock option plan

The changes in the number of stock options granted by the Company and their weighted average exercise prices for the three-month periods ended March 31, 2010 and 2009 are as follows:

	2010		2009	
	#	\$	#	\$
Balance, beginning of period	4,932,483	3.71	4,081,745	4.57
Options granted	794,150	1.59	1,144,605	1.46
Options exercised	—	—	(7,633)	1.19
Options expired	(24,467)	5.46	(23,300)	2.61
Options forfeited	(433)	1.46	(22,367)	7.40
Balance, end of period	5,701,733	3.40	5,173,050	3.88
Options exercisable at end of period	4,667,199	3.81	3,892,378	4.60

The fair value of options granted was estimated at the date of grant using the Black-Scholes option pricing model, resulting in the following weighted average assumptions and weighted average grant date fair value of stock options:

	FOR THE THREE MONTHS ENDED:	
	MARCH 31, 2010	MARCH 31, 2009
Expected volatility	82%	100%
Expected life	6.0 years	5.0 years
Risk-free interest rate	2.99%	1.85%
Dividend yield	Nil	Nil
Weighted average grant date fair value (per option)	\$1.14	\$1.09

A compensation expense of \$574, net of the estimation of forfeitures, has been recognized during the three-month period ended March 31, 2010 [2009 – \$792] for stock options granted to employees and directors, and has been charged to contributed surplus.

Additional information concerning stock options as at March 31, 2010 is as follows:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE [IN YEARS]	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
\$	#		\$	#	\$
0.70 to 0.96	236,895	4.9	0.91	223,561	0.92
1.21 to 1.62	2,338,488	6.2	1.49	1,383,988	1.46
1.81 to 2.65	1,156,250	4.9	2.45	1,089,550	2.47
3.10 to 3.94	345,100	0.1	3.24	345,100	3.24
6.61 to 9.72	1,625,000	2.5	7.24	1,625,000	7.24
	5,701,733	4.4	3.40	4,667,199	3.81

8. RESEARCH AND DEVELOPMENT EXPENSES, NET

Research and development expenses are presented net of estimated government assistance of \$300 and \$300 for the three-month periods ended March 31, 2010 and 2009 respectively.

9. CONTINGENCIES

In 1994, concurrently with the purchase of a controlled-release technology, the Company acquired a right of first refusal with respect to an improved technology for which it agreed to pay royalties of 4% on net revenue generated from the commercialization of the 1994 purchased technology. On February 7, 2005, the Company was served with a motion to institute legal proceedings in the Québec Superior Court. The motion seeks payment of an unspecified amount of royalties said to be outstanding since 1999. The Company has always considered that no amount is owing. During the year ended December 31, 2009, informal settlement discussions were initiated between the parties, prior to incurring significant legal fees associated with the ensuing steps of the legal proceedings. The Company has consequently accrued a selling, general and administrative expense of \$450 in the year ended December 31, 2009, which is the estimated amount it would expect to pay if a settlement is reached.

The Company has entered into a long-term supply agreement with a third-party manufacturer in anticipation of the commercialization of its products. This agreement includes a clause requiring the purchase of minimum quantities of product under certain conditions. Under the terms of the agreement, any shortfall on the purchase commitments may result, in certain circumstances, in an indemnification payment by the Company at the end of the term of the agreement. The Company is currently discussing with the third-party to review the terms of the agreement, including the elimination of the minimum purchase commitments. The Company currently believes that no indemnification payment will be required at the end of the term of the agreement. The ultimate outcome of these discussions is however uncertain. No liability has been recorded by the Company with respect to this matter.

10. FINANCIAL INSTRUMENTS

Classification of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the "Financial instruments – Recognition and measurement" section of note 2 to the annual consolidated financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized. As at March 31, 2010, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	HELD-FOR-TRADING \$	AVAILABLE- FOR-SALE \$	LOANS AND RECEIVABLES \$	OTHER FINANCIAL LIABILITIES \$	TOTAL CARRYING VALUE \$	FAIR VALUE \$
Financial assets						
Cash and cash equivalents	37,355	—	—	—	37,355	37,355
Marketable securities	—	5,925	—	—	5,925	5,925
Accounts receivable [excluding sales tax receivable]	—	—	3,499	—	3,499	3,499
Restricted investments	—	124	—	—	124	124
Long-term investment	3,035	—	—	—	3,035	3,035
	40,390	6,049	3,499	—	49,938	49,938
Financial liabilities						
Accounts payable and accrued liabilities [excluding certain reserves]	—	—	—	17,477	17,477	17,477
Long-term debt	—	—	—	22,119	22,119	23,814
	—	—	—	39,596	39,596	41,291

Fair value of financial instruments

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below:

- The fair value of the marketable securities has been determined by reference to published price quotations in active markets (Level 1);
- Given their short-term maturity, the fair value of cash and cash equivalents, accounts receivable, restricted investments and accounts payable and accrued liabilities approximates their carrying value;
- The long-term investment is recorded at its estimated fair value using the methods and assumptions described in note 5 (Level 3);
- The estimated fair value of long-term debt was determined by discounting expected cash flows at rates the Company would expect in the marketplace for similar debts.

11. RECONCILIATION BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN CANADA AND IN THE UNITED STATES

These unaudited interim consolidated financial statements were prepared in accordance with Canadian GAAP for interim financial statements. As permitted under U.S. GAAP, certain disclosures normally required in annual financial statements have been omitted. The accounting policies which the Company would adopt in order to conform to U.S. GAAP as well as certain additional disclosures required under U.S. GAAP, are the same as those presented in the Company's most recent annual audited consolidated financial statements, and are set forth in note 27 of the most recent financial statements for the year ended December 31, 2009, except as described hereafter. In the opinion of management, all normal, recurring adjustments considered necessary for a fair presentation under U.S. GAAP have been included.

[a] Patent and intellectual property costs

During the three-month period ended March 31, 2010, the Company recorded as intangible assets internally generated patents which relate to a product approved for sale, acquired certain patents or intellectual property rights, for an amount of \$6 [2009 – \$16] which will be amortized over a weighted average period of approximately 10 years [2009 – 11 years] under U.S. GAAP.

11. RECONCILIATION BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN CANADA AND IN THE UNITED STATES [CONT'D]

[b] Derivative liability – warrants

Under Canadian GAAP, the Company recorded an increase to warrants and a reduction in the carrying value of the term loan amounting to \$549, which was the estimated fair value of the 292,030 warrants which vested as a result of the amendment to the term loan agreement in June 2009. The reduction to the carrying value of the term loan will be accreted over the remaining term of the loan as a non-cash financial expense using the effective interest rate method.

Under U.S. GAAP, the above adjustment was reversed and the Company re-measured the derivative liability based on its estimated fair value as at the reporting date and recorded a gain resulting from the change in its estimated fair value amounting to \$199 for the three-month period ended March 31, 2010 [2009 – \$161], and a corresponding decrease to the derivative liability. The accreted non-cash financial expense under Canadian GAAP in the amount of \$65 for the three-month period ended March 31, 2010 [2009 – nil] was reversed.

The estimated fair value of this derivative liability was determined as at March 31, 2010 and December 31, 2009 using the Black-Scholes option pricing model and the following assumptions:

	MARCH 31, 2010	DECEMBER 31, 2009
Expected volatility	124%	122%
Expected life	2.75 years	3.0 years
Risk-free interest rate	2.59%	2.51%
Dividend yield	Nil	Nil

The effect of the above on the Company's consolidated financial statements as well as the other accounting policies the Company would adopt in order to conform to U.S. GAAP, as set forth in note 27 of the most recent financial statements for the year ended December 31, 2009, is set out below:

Reconciliation of consolidated net loss and comprehensive loss

FOR THE THREE MONTHS ENDED:	MARCH 31, 2010 \$	MARCH 31, 2009 \$
Net loss for the period under Canadian GAAP	(8,257)	(7,974)
Adjustment for:		
Impact of reversal of previously recorded inventory write-downs	—	59
Patent and intellectual property costs [a]	(6)	(8)
Change in fair value of the derivative liability – warrants [b]	199	161
Financial expenses [b]	65	—
Net loss for the period under U.S. GAAP	(7,999)	(7,762)
Unrealized net gains on marketable securities in prior periods transferred to net loss in the current period	—	(960)
Changes in unrealized losses on marketable securities	(24)	10
Comprehensive loss for the period under U.S. GAAP	(8,023)	(8,712)
Net loss per share under U.S. GAAP – basic and diluted	(0.12)	(0.14)

The weighted average number of common shares outstanding for purposes of determining basic and diluted net loss per share is the same as that used for Canadian GAAP purposes.

The effects of any permanent or temporary timing differences for tax purposes are not significant and therefore have not been reflected in the reconciliation.

Reconciliation of reported amounts on consolidated balance sheets

Material variations in selected consolidated balance sheet accounts under U.S. GAAP are as follows:

	CANADIAN GAAP \$	ADJUSTMENTS \$	U.S. GAAP \$
As at March 31, 2010			
Inventories	2,983	(131)	2,852
Property, plant and equipment	8,251	304	8,555
Intangible assets [a]	1,951	(302)	1,649
Derivative liability – warrants [b]	—	330	330
Long-term debt [b]	22,119	366	22,485
Capital stock	260,231	4,024	264,255
Warrants [b]	6,133	(549)	5,584
Contributed surplus	16,959	6,349	23,308
Deficit	(281,882)	(10,649)	(292,531)
As at December 31, 2009			
Inventories	2,637	(131)	2,506
Property, plant and equipment	8,575	334	8,909
Intangible assets [a]	2,018	(325)	1,693
Derivative liability – warrants [b]	—	529	529
Long-term debt [b]	22,497	431	22,928
Capital stock	242,316	4,024	246,340
Warrants [b]	937	(549)	388
Contributed surplus	16,385	6,349	22,734
Deficit	(273,625)	(10,906)	(284,531)

Additional disclosures required under U.S. GAAP are as follows:

[i] Intangible assets

Under U.S. GAAP, cost and accumulated amortization of intangible assets as at March 31, 2010 amount to \$2,212 and \$563, respectively [as at December 31, 2009 – \$2,206 and \$513, respectively]. Amortization expense for intangible assets for the three-month period ended March 31, 2010 amounted to \$50 [2009 – \$49].

[ii] Recent accounting pronouncements

In February 2010, the Financial Accounting Standards Board ["FASB"] issued Accounting Standards Update ["ASU"] 2010-10, *Amendment for Certain Investment Funds* ["ASU 2010-10"]. ASU 2010-10 amends existing consolidation requirements that are currently within the scope of FASB ASC Topic 810, *Consolidation*, resulting from the issuance of Statement 167 by deferring those requirements for a reporting entity's interest in an entity (1) that has all the attributes of an investment company or (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. An entity that qualifies for the deferral will continue to be assessed under

the overall guidance on the consolidation of variable interest entities in Subtopic 810-10 (before the Statement 167 amendments) or other applicable consolidation guidance, such as the guidance for the consolidation of partnerships in Subtopic 810-20. The deferral is primarily the result of differing consolidation conclusions reached by the International Accounting Standards Board for certain investment funds when compared with the conclusions reached under Statement 167. The deferral is effective as of the beginning of a reporting entity's first annual period that begins after November 15, 2009, and for interim periods within that first annual reporting period, which coincides with the effective date of Statement 167. Early application is not permitted. The provisions of ASU 2010-10 are effective for the Company beginning in 2010 and are not expected to have a material effect on the Company's consolidated financial statements.

In March 2010, the FASB issued ASU No. 2010-11, *Scope Exception Related to Embedded Credit Derivatives* ["ASU 2010-11"], which amends FASB ASC Topic 815, *Derivatives and Hedging*. All entities that enter into contracts containing an embedded credit derivative feature related to the transfer of credit risk that is not only in the form of subordination of one financial instrument to another will be affected by the amendments in ASU 2010-11 because the amendments clarify that the embedded credit derivative scope exception in paragraphs 815-15-15-8 through 15-9 does not apply to such contracts. The provisions of ASU 2010-11 are effective at the beginning of the reporting entity's first fiscal quarter beginning after June 15, 2010 and are not expected to have a material effect on the Company's consolidated financial statements.

12. COMPARATIVE FIGURES

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

13. SUBSEQUENT EVENTS

On April 29, 2010, the Company entered into a joint venture agreement with Gruppo Angelini ["Angelini"] to establish a joint venture for the commercialization of OLEPTRO™ in the United States. OLEPTRO™ is a novel once-daily formulation of the antidepressant trazodone which was approved for sale in the United States by the U.S. Food and Drug Administration on February 2, 2010. The joint venture, Angelini Labopharm, will be 50% owned by each of the Company and Angelini.

As part of the joint venture agreement, the Company will grant Angelini Labopharm the exclusive right to market and sell OLEPTRO™ in the United States. In exchange, the Company will receive a total consideration from Angelini Labopharm comprised of the following: (i) a 50% ownership interest in Angelini Labopharm valued at US\$26,000 based on Angelini's cash contribution to the joint venture; (ii) a cash payment of US\$26,000 from Angelini Labopharm upon completing the joint venture agreement; and (iii) the Company is eligible to receive up to US\$40,000 from Angelini Labopharm upon OLEPTRO™ achieving certain sales milestones (or US\$20,000 after giving effect to the Company's 50% participation in the joint venture).

The Company and Angelini [the "Partners"] will each initially contribute US\$14,000 to Angelini Labopharm to fund a total of US\$28,000 in initial working capital to support the launch of OLEPTRO™. The ongoing cash requirements of Angelini Labopharm will be reviewed on a quarterly basis and the Partners will jointly make additional contributions as required and as mutually agreed upon. The Partners will each be entitled to 50% of the joint venture's net income and, as of September 30, 2011, all excess cash flows will be distributed to the Partners on a quarterly basis.

As a result of the joint venture agreement, the 2007 cross-licensing agreement between the Company and Angelini will be amended such that the royalty on end user net sales in the United States to be paid by the Company to Angelini is 1.5% on end user net sales in excess of US\$50,000. In addition, the Company will pay Gruppo Angelini a royalty of 5% on the up-front and milestone payments received in excess of US\$40,000.

Upon completion of the transaction, Angelini Labopharm will reimburse the Company for certain of the costs that the Company has paid in the year to date in 2010 related to the launch of OLEPTRO™ in the United States. The transaction is expected to be completed by the end of May 2010 and is subject to conditions customary to such transactions.

GENERAL INFORMATION

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