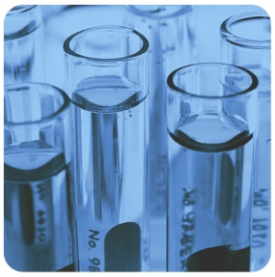

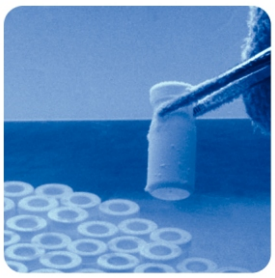

Second Quarter Results

Transition Therapeutics Inc.

2002

To Our Shareholders

Transition Therapeutics Inc. (“Transition”) took a major step forward in its corporate development during the second quarter of fiscal 2002 by successfully negotiating a merger with Waratah Pharmaceuticals Inc. (“Waratah”) which was completed in January 2002. We also made significant advances in our Multiple Sclerosis (”MS”) program, acquired additional technology and remain on track to take our interferon enhancing therapy to a Phase I clinical trial in mid 2002 and Waratah's Islet Neogenesis Therapy to a Phase I clinical trial in the United Kingdom by September 2002.

The Merger

The merger came as a direct result of Transition's exploration of several strategic opportunities to further enhance shareholder value. The transaction became effective January 15, 2002, following approval by shareholders. It is expected to strengthen our management expertise, enhance our cash position, increase market awareness and decrease shareholder risk through the addition of another strong technology to our existing product portfolio. Waratah's Islet Neogenesis Therapy (I.N.T.™) for the treatment of insulin dependent diabetes represents a new paradigm in the treatment of diabetes through the administration of certain growth factors which stimulate the regeneration of insulin-secreting islet cells and is expected to enter a Phase I clinical trial by September 2002. The addition of this new technology to Transition's already strong product pipeline will further increase the probability of clinical success and the achievement of profitable operations.

The business and operations of the two companies were combined by way of a plan of arrangement. Under the plan of arrangement, Waratah amalgamated with a newly formed subsidiary of Transition to form a wholly-owned subsidiary of Transition which operates under the name “Waratah Pharmaceuticals Inc.”. Shareholders of Waratah received 0.83333 common shares of Transition for each common share of Waratah held. All outstanding warrants and options to acquire Waratah shares were cancelled and replaced with warrants and options of the new amalgamated entity. Each such warrant or option is exercisable into common shares of Transition with appropriate adjustments to the number of common shares and on the same terms as to exercise time, exercise price and expiry and all other terms and conditions of the cancelled Waratah warrant or option, as the case may be.

In December 2001 the Company acquired patents for a methyldonor technology from Biogenesys, Inc. (“Biogenesys”) which provide Transition with an additional level of protection for our interferon enhancing therapy. The patents were purchased from Biogenesys in exchange for 100,000 of Transition's common shares and future royalties on net sales of the methyldonor technology.

Financial Highlights

During the second quarter of fiscal 2002, Transition continued to optimize its financial structure. At December 31, 2001, which was prior to the Waratah merger, Transition had working capital of $6.3 million, including cash and cash equivalents of $6.2 million, compared to working capital of $7.9 million at June 30, 2001. At January 31, 2002, the Company and Waratah combined had cash and short-term investments of approximately $10 million prior to the payment of all transaction costs. Management is committed to rationalizing all costs and ensuring that all efficiencies relating to the merger are identified and achieved.

The net loss for six months ended December 31, 2001 increased to $1,156,739 or ($0.05) per share from $590,333 or ($0.04) per share for the same period in fiscal 2001. Research and development expenses increased to $740,235 for the six months ended December 31, 2001 from $301,697 for the six months ended December 31, 2000. This increase is a result of additional research and the growth in scientific personnel required to quickly advance the Company's MS, diabetes and restenosis programs. General and administrative expenses were $541,545 for the six months ended December 31, 2001 compared to $323,462 for the same period in fiscal 2001. The increase was required to support research and development activities, enhance Company awareness and comply with regulatory requirements.

Research and Development

Transition continues to advance its research programs and intends to file a Clinical Trial Application (“CTA”), formerly an Investigation New Drug application (“IND”) with Health Canada for our interferon enhancing therapy by the end of April 2002 and to commence a Phase I clinical

To Our Shareholders

trial for this therapy in mid 2002. In addition, the combined company expects to commence a Phase I clinical trial in the United Kingdom for I.N.T.™ by September 2002.

As a company committed to building shareholder value, we will continue to identify and capitalize on new and existing opportunities that will ensure the achievement of our strategic goal - making Transition a successful global biotechnology company. With this in mind, I would like to personally thank everyone involved in the merger; through your efforts, we have successfully combined the energy, talent and assets of two outstanding organizations to create an even better company. I eagerly await the opportunity to report on the progress we make in developing our newly expanded pipeline of product candidates.

Tony Cruz
President & CEO
Transition Therapeutics Inc.

Management's Discussion and Analysis

The following information should be read in conjunction with the unaudited interim financial statements and the related notes included herein as well as the 2001 audited financial statements and the related notes, which are prepared in accordance with Canadian generally accepted accounting principles. Except for historical information, the following report includes statements which are forward looking. Readers are cautioned that the actual results may differ materially from the results projected in any forward looking statements.

Overview

Transition Therapeutics Inc. (the "Company") is a Canadian biotechnology company developing products for the treatment of Multiple Sclerosis ("MS"), diabetes and restenosis. The Company commenced operations in July 1998, and has devoted its resources primarily to fund its research and development programs. The Company has not generated positive cash flow from operations since inception and is considered to be in the development stage. All revenue has been generated from interest income on surplus funds and the sale of reagents. The Company has incurred a cumulative deficit since inception on July 6, 1998 to December 31, 2001 of $3,440,331. On January 15, 2002, subsequent to the quarter end, the Company acquired Waratah Pharmaceuticals Inc. ("Waratah") a Canadian biotechnology company focused on a sustained therapy for insulin-dependant diabetes termed Islet Neogenesis Therapy (I.N.T.™). Commencing in the third quarter of fiscal 2002, the results of Waratah will be consolidated with the Company's results. As a result of this consolidation and of the two companies investing in research and development, pre-clinical studies, clinical trials and regulatory compliance, Transition's losses are expected to significantly increase in future quarters.

Results of operations

For the three months ended December 31, 2001, the Company recorded a net loss of $634,542 ($0.03 per common and Class B share) compared to a net loss of $381,408 ($0.02 per common and Class B share) for the three months ended December 31, 2000. For the six months ended December 31, 2001, the Company recorded a net loss of $1,156,739 ($0.05 per common and Class B share) compared to a net loss of $590,333 ($0.04 per common share and Class B Share) for the six months ended December 31, 2000. The increase in the loss from fiscal 2001 is due to the effect of higher expenditures, which were partially offset by higher interest income.

Revenue

Interest income for the three months ended December 31, 2001, was $57,989 as compared to $51,427 for the three months ended December 31, 2000. Interest income increased slightly during the three month period due to the net effect of an increase in cash and cash equivalents and short-term investments of $1,632,173 and a decrease in interest rates between December 31, 2000 and December 31, 2001. Interest income for the six months ended December 31, 2001 was $148,151 as compared to $50,312 for the six months ended December 31, 2000. The

increase in interest income resulted from increased cash and cash equivalents and short-term investments. The Company completed its initial public offering in February 2001, which raised net proceeds of $4,486,305. Interest income is expected to remain fairly constant during the third quarter of fiscal 2002 due to the net effect of higher cash balances resulting from the acquisition of Waratah and lower interest rates. However, in the absence of additional financing, interest income is expected to decrease during the fourth quarter of fiscal 2002 due to lower cash balances resulting from ongoing expenditures.

Research and development, net

Research and development expenses increased to $393,363 for the three months ended December 31, 2001 from $216,660 for the same period in fiscal 2001. Research and development expenses increased to $740,235 for the six months ended December 31, 2001 from $301,697 for the same period in fiscal 2001. The primary reasons for the increase in expenditures included: an increase in research sponsorship agreements including a new collaboration agreement with Biogenesys, Inc.; the hiring of four new scientists and a Director of Clinical Development and Manufacturing; the addition of two new laboratory facilities; and an increase in patent costs to broaden the Company's patent position. Research and development expenses are expected to increase significantly during the third and fourth quarters of fiscal 2002 as a result of the acquisition of Waratah and the increased expenditures which will result from the Company preparing to commence Phase I clinical trials for its MS interferon combination therapy and Waratah's Islet Neogenesis Therapy.

General and administrative expenses

General and administrative expenses increased to $287,613 for the three months ended December 31, 2001 from $207,427 for the same period in fiscal 2001. General and administrative expenses increased to $541,545 for the six months ended December 31, 2001 from $323,462 for the same period in fiscal 2001. The primary reasons for the increase included: additional personnel and infrastructure to support the higher level of research and development activities; and incurring expenditures to enhance Company awareness and comply with regulatory requirements. The Company anticipates a significant increase in the level of general and administrative expenses for the third and fourth quarters of fiscal 2002 as a result of the acquisition of Waratah.

Financing activities

During August 2001, the Company raised net proceeds of $117,188 from the issuance of 93,750 common shares through the exercise of share purchase warrants. On December 5, 2001, the Company issued 100,000 common shares valued at $137,000 to purchase technology from Biogenesys, Inc. As at December 31, 2001, the Company has 3,578,750 share purchase warrants outstanding, and if exercised, they would generate maximum cash proceeds to the Company of $4,473,437. If not exercised, 3,156,250 of these warrants will expire on March 15, 2002 and 422,500 of these warrants will expire on August 28, 2002.

Subsequent to the end of the quarter, Transition issued approximately 21,268,000 common shares related to its acquisition of Waratah. (See outlook sector below)

In the future, the Company will need to raise additional funds to continue to advance its research and development programs, continue pre-clinical studies and to fund potential future clinical trials. The Company intends to seek such funds through public or private placements, corporate collaborations or partnership arrangements and from other sources.

Liquidity and capital resources

The Company's cash and cash equivalent plus short-term investments and the Company's working capital position were $6,221,272 and $6,307,756, respectively at December 31, 2001 down from June 30, 2001 balances of $7,604,138 and $7,880,155, respectively. The decreases resulted primarily from the net loss during the six months ended December 31, 2001.

Capital expenditures

During the three months ended December 31, 2001, the Company did not have any capital expenditures, as compared to $2,730 for three months ended December 31, 2000. During the six months ended December 31, 2001, the Company's capital expenditures were $25,600, as

compared to $3,558 for six months ended December 31, 2000. During the six months ended December 31, 2001, the primary capital expenditures were office equipment and furniture to support the increased staffing levels. The Company does not anticipate any significant capital expenditures during the third quarter of fiscal 2002, except for the acquisition of the capital assets through the Waratah transaction.

Risks and uncertainties

Prospects for companies in the biopharmaceutical industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in such companies should be regarded as speculative. The Company's technologies are currently in the research and development stage, which is the riskiest stage for a company in the biopharmaceutical industry. It is not possible to predict, based solely upon studies in animals, whether a new therapeutic or device will prove to be safe and effective in humans. The Company has not introduced a product into the market and there is no assurance that research and development programs conducted by the Company will result in any commercially viable products.

The Company has incurred losses and anticipates that its losses will increase as it continues its research and development and potential future clinical trials and eventually seeks regulatory approval for the sale of its products. If a product is approved for sale, there is no assurance that the Company will generate adequate funds to continue development or will ever achieve profitable operations. There are many factors such as competition, proprietary rights, patent protection and the regulatory environment that can influence the Company's ability to be profitable.

From time to time, the Company will seek additional funding through public or private placements, corporate collaborations or partnership arrangements. The Company's ability to access the capital markets or to enlist partners is mainly dependent on the progress of its research and development and regulatory approval of its products. There is no assurance that additional funding will be available on acceptable terms, if at all.

To continue the Company's research and development programs and to conduct future clinical trials, the Company will rely upon employees, collaborators and other third party relationships. There is no assurance that the Company will be able to maintain or establish these relationships as required.

Market prices for securities of biotechnology companies may be highly volatile and subject to significant fluctuation and may not necessarily be related to the operating or other performances of such companies.

Outlook

On January 15, 2002, Waratah and a newly formed subsidiary of the Company were amalgamated in accordance with the provisions of the Canadian Business Corporations Act to form a new wholly-owned subsidiary of the Company which operates under the name "Waratah Pharmaceuticals Inc." Shareholders of Waratah received 0.83333 common shares of the Company for each common share of Waratah held. All outstanding warrants and options to acquire Waratah shares were cancelled and replaced with warrants and options of the new amalgamated entity on a one-for-one basis. Each such warrant or option is exercisable into common shares of the Company with appropriate adjustments to the number of common shares and on the same terms as to exercise time, exercise price and expiry and all other terms and conditions of the cancelled Waratah warrant or option, as the case may be. On the effective date of the transaction, Waratah had 4,853,616 warrants and 2,545,500 options outstanding. This transaction will be accounted for using the purchase method with the Company identified as the acquirer. On January 15, 2002, the Company issued approximately 21,268,000 common shares to purchase the common shares of Waratah. The combined company intends to file a Clinical Trial Application ("CTA"), formerly an Investigation New Drug application ("IND") with Health Canada for our interferon enhancing therapy by the end of April 2002 and to commence a Phase I clinical trial for this therapy in mid 2002. In addition, the combined company expects to commence a Phase I clinical trial in the United Kingdom for I.N.T.™ by September 2002. The combined company also intends to continue the development of the combined product pipeline and seek corporate partners who are interested in establishing licensing, co-development and other such relationships.

Consolidated Balance Sheets

	Unaudited December 31, 2001 $	Audited June 30, 2001 $
ASSETS		
Current		
Cash and cash equivalents	6,221,272	4,604,138
Short-term investments	-	3,000,000
Interest receivable	18,613	122,436
GST receivable	43,936	117,969
Accrued accounts receivable	12,000	12,000
Investment tax credits receivable	175,619	131,400
Deposits on collaborations	199,230	102,874
Prepaid expenses and other assets	303,005	217,381
Total current assets	**6,973,675**	**8,308,198**
Capital assets, net	305,233	312,989
Deferred acquisition costs [*note 11*]	526,532	-
Technology [*note 8[b]*]	134,717	-
	7,940,157	**8,621,187**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	636,362	398,486
Current portion of leasehold inducement	3,698	3,698
Current portion of obligation under capital leases	25,859	25,859
Total current liabilities	**665,919**	**428,043**
Leasehold inducement	27,122	28,970
Obligation under capital leases	61,660	76,167
Total liabilities	**754,701**	**533,180**
Commitments [*note 8*]		
Subsequent events [*note 11*]		
Shareholders' equity		
Share capital [*notes 3 and 4*]	10,625,787	10,371,599
Deficit	(3,440,331)	(2,283,592)
Total shareholders' equity	**7,185,456**	**8,088,007**
	7,940,157	**8,621,187**

See accompanying notes

Consolidated Statements of Loss and Deficit

Unaudited	Six-month period ended December 31, 2001 $	Six-month period ended December 31, 2000 $	Three-month period ended December 31, 2001 $	Three-month period ended December 31, 2000 $	Cumulative since Inception on July 6, 1998 $
REVENUE					
Product	-	-	-	-	58,021
EXPENSES					
Research and development, net [*note 5*]	740,235	301,697	393,363	216,660	1,971,799
General and administrative	541,545	323,462	287,613	207,427	1,844,430
Amortization	23,110	15,486	11,555	8,748	63,779
	1,304,890	640,645	692,531	432,835	3,880,008
Loss before the undernoted	(1,304,890)	(640,645)	(692,531)	(432,835)	(3,821,987)
Interest income	148,151	50,312	57,989	51,427	381,656
Net loss for the period	**(1,156,739)**	**(590,333)**	**(634,542)**	**(381,408)**	**(3,440,331)**
Deficit, beginning of period	(2,283,592)	(529,808)	(2,805,789)	(738,733)	-
Deficit, end of period	**(3,440,331)**	**(1,120,141)**	**(3,440,331)**	**(1,120,141)**	**(3,440,331)**
Basic net loss per common and Class B share [*note 2*]	**$(0.05)**	**$(0.04)**	**$(0.03)**	**$(0.02)**	**-**

See accompanying notes

Consolidated Statements of Cash Flows

Unaudited	Six-month period ended December 31, 2001 $	Six-month period ended December 31, 2000 $	Three-month period ended December 31, 2001 $	Three-month period ended December 31, 2000 $	Cumulative since Inception on July 6, 1998 $
OPERATING ACTIVITIES					
Net loss for the period	(1,156,739)	(590,333)	(634,542)	(381,408)	(3,440,331)
Add(deduct) items not involving cash:					
Amortization	35,639	15,486	18,961	8,748	87,693
Amortization of leasehold inducement	(1,848)	(1,848)	(924)	(924)	(6,160)
Write-off of accrued accounts receivable	-	-	-	-	64,528
	(1,122,948)	(576,695)	(616,505)	(373,584)	(3,294,270)
Net charge in non-cash working capital balances related to operations [*note 6*]	189,533	52,760	360,585	45,797	(77,921)
Cash used in operating activities	**(933,415)**	**(523,935)**	**(255,920)**	**(327,787)**	**(3,372,191)**
INVESTING ACTIVITIES					
Purchase of short-term investments	-	(4,160,000)	-	(4,160,000)	(4,240,000)
Maturity of short-term investments	3,000,000	-	3,000,000	-	4,240,000
Purchase of capital assets	(25,600)	(3,558)	-	(2,730)	(273,912)
Cash provided by (used in) investing activities	**2,974,400**	**(4,163,558)**	**3,000,000**	**(4,162,730)**	**(273,912)**
FINANCING ACTIVITIES					
Decrease in advances from related parties	-	(5,629)	-	(5,629)	-
Repayment of obligation under capital leases	(14,507)	(7,131)	(2,201)	(3,619)	(29,802)
Proceeds from issuance of special warrants, net	-	4,914,941	-	4,914,941	4,914,941
Proceeds from issuance of common shares, net	117,188	60	-	-	5,508,768
Increase in prepaid financing costs	-	(111,182)	-	(111,182)	-
Increase in deferred acquisition costs	(526,532)	-	(526,532)	-	(526,532)
Cash provided by (used in) financing activities	**(423,851)**	**4,791,059**	**(528,733)**	**4,794,511**	**9,867,375**
Net increase in cash and cash equivalents during the period	**1,617,134**	**103,566**	**2,215,347**	**303,994**	**6,221,272**
Cash and cash equivalents, beginning of period	4,604,138	285,533	4,005,925	85,105	-
Cash and cash equivalents, end of period	**6,221,272**	**389,099**	**6,221,272**	**389,099**	**6,221,272**

See accompanying notes

Notes to Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Transition Therapeutics Inc. [the "Company"] is a biopharmaceutical development company, incorporated on July 6, 1998 under the Business Corporations Act (Ontario). The Company is engaged in the business of developing products for the treatment of Multiple Sclerosis, diabetes and restenosis. To date, the Company has not earned significant revenues and is considered to be in the development stage.

The continuation of the Company's research and development activities and the commercialization of the targeted therapeutic products is dependant on the Company's ability to complete its research and development programs, achieve future profitable operations and finance its cash requirements.

These consolidated financial statements include the accounts of Transition Therapeutics Leaseholds Inc., its wholly-owned subsidiary, incorporated on March 10, 2000 under the *Business Corporations Act* (Ontario), and 3974863 Canada Inc., its wholly-owned subsidiary, incorporated on November 22, 2001 under the *Canada Business Corporations Act*. All material intercompany transactions and balances have been eliminated on consolidation. These consolidated financial statements do not include the accounts of Waratah Pharmaceuticals Inc. as the acquisition was not effective until January 15, 2002.

Information with respect to the June 30, 2001 balance sheet is derived from the Company's audited consolidated financial statements. These consolidated financial statements have been prepared using the same accounting principles used in the audited consolidated financial statements for the year ended June 30, 2001, except for the accounting principles discussed in Note 2. Certain information and note disclosures normally included in financial statements prepared in accordance with Canadian generally accepted accounting principles have been omitted. It is suggested that these interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended June 30, 2001.

2. CHANGE IN ACCOUNTING POLICIES

Loss per common and Class B share

In the first quarter of fiscal 2002, the Company retroactively adopted the new recommendations of the The Canadian Institute of Chartered Accountants relating to loss per share. Pursuant to the new recommendations, basic loss per common and Class B share is determined by dividing the net loss attributable to common shares and Class B shares by the weighted average number of common and Class B shares outstanding during the period. Contingently returnable common shares are excluded when determining the weighted average number of common and Class B shares outstanding. Fully diluted loss per common and Class B share is in accordance with the treasury stock method and is based on the weighted average number of common and Class B shares and dilutive common and Class B share equivalents outstanding during the period. The fully diluted loss per common and Class B share has not been presented as it is anti-dilutive.

The weighted average number of shares used in the computation of basic loss per common and Class B share for the six-month period ended December 31, 2001 is 23,390,652 (six-month period ended December 31, 2000 - 14,330,425) and for the three months ended December 31, 2001 is 23,425,197 (three months ended December 31, 2000 - 16,115,751).

For the three-month period ended December 31, 2001, 1,172,901 (three-month period ended December 31, 2000 - 1,204,901) contingently returnable common shares were excluded from the basic loss per common and Class B share calculation.

Technology

The cost of intangibles that are purchased from others for a particular research and development project, are deferred and amortized over their estimated useful life, which is five years for the technology purchased to date.

3. SHARE CAPITAL

[a] Authorized

Unlimited common shares

Unlimited Class B shares

On October 10, 2000 the Company subdivided the outstanding and issued common shares on the basis of 3.25649 common shares for each issued and outstanding common share. All share and loss per share figures have been retroactively adjusted to reflect this change.

[b] Issued and outstanding and changes during the period

Common Shares	#	$
Balance, June 30, 2001	**19,975,000**	**6,968,948**
Exercise of share purchase warrants	93,750	117,188
Balance, September 30, 2001	**20,068,750**	**7,086,136**
Issued for purchase of technology	100,000	137,000
Balance, December 31, 2001	**20,168,750**	**7,223,136**

Class B shares	#	$
Balance, June 30, 2001 and December 31, 2001	**4,500,000**	**3,402,651**
Total common and Class B shares, December 31, 2001	**24,668,750**	**10,625,787**

[c] Stock options and share purchase warrants

Share purchase warrants	#
Share purchase warrants outstanding, June 30, 2001	**3,672,500**
Share purchase warrants exercised	(93,750)
Share purchase warrants outstanding, December 31, 2001	**3,578,750**

The maximum possible cash proceeds to the Company from the exercise of the share purchase warrants are $4,473,437.

On November 27, 2001, the Company obtained approval from the Canadian Venture Exchange ["CDNX"] to extend the term of 3,156,250 of the share purchase warrants from December 28, 2001 to March 15, 2002. The share purchase warrants were issued in connection with the private placement on October 20, 2000.

Stock options	#
Stock options outstanding, June 30, 2001	**1,435,000**
Stock options issued	200,000
Stock options outstanding, September 30, 2001	**1,635,000**
Stock options cancelled	(7,296)
Stock options outstanding, December 31, 2001	**1,627,704**

The maximum possible cash proceeds to the Company from the exercise of the stock options are $1,823,663.

4. STOCK-BASED COMPENSATION PLAN

A summary of options outstanding as at December 31, 2001 under the Company's Stock Option Plan is presented below.

Exercise Price $	Number of Outstanding Options #	Expiry date	Number of Exercisable Options #
0.80	**632,704**	October 24, 2005	**270,145**
1.25	**765,000**	February 27, 2006	**368,527**
1.25	**10,000**	June 18, 2006	**1,932**
1.35	**20,000**	June 13, 2006	**10,000**
1.30	**25,000**	September 23, 2006	**25,000**
1.55	**25,000**	September 18, 2006	**4,688**
1.67	**150,000**	July 8, 2006	**30,000**
	1,627,704		**710,292**

5. RESEARCH AND DEVELOPMENT PROJECTS

Treatment of Multiple Sclerosis

	$
Cumulative research and development expenses as at June 30, 2001	212,563
Research and development expenses for the six-month period ended December 31, 2001	287,770
Cumulative research and development expenses	**500,333**

Treatment of Diabetes and Obesity

	$
Cumulative research and development expenses as at June 30, 2001	148,311
Research and development expenses for the six-month period ended December 31, 2001	99,913
Cumulative research and development expenses	**248,224**

Treatment of Restenosis

	$
Cumulative research and development expenses as at June 30, 2001	116,056
Research and development expenses for the six-month period ended December 31, 2001	71,680
Cumulative research and development expenses	**187,736**

Treatment of Scarring/Wound Healing

	$
Cumulative research and development expenses as at June 30, 2001	452,354
Research and development expenses for the six-month period ended December 31, 2001	68,258
Cumulative research and development expenses	**520,612**

Discovery and Manufacturing Program

	$
Cumulative research and development expenses as at June 30, 2001	244,448
Research and development expenses for the six-month period ended December 31, 2001	212,614
Cumulative research and development expenses	**457,062**

6. CONSOLIDATED STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	Six-month period ended December 31, 2001 $	Six-month period ended December 31, 2000 $	Three-month period ended December 31, 2001 $	Three-month period ended December 31, 2000 $
Share subscriptions receivable	-	30,530	-	9,340
Interest receivable	103,823	(45,175)	149,437	(45,175)
GST receivable	74,033	(31,479)	(24,429)	(27,559)
Accrued accounts receivable	-	(24,291)	-	-
Investment tax credits receivable	(44,219)	-	(23,081)	-
Deposits on collaborations	(96,356)	(21,392)	(69,119)	(17,042)
Prepaid expenses and other assets	(85,624)	(70,516)	(76,313)	(72,016)
Accounts payable and accrued liabilities	237,876	215,083	404,090	198,249
	189,533	52,760	360,585	45,797
Supplemental cash flow information				
Interest paid	2,088	3,807	1,007	3,678

7. NON-CASH TRANSACTIONS

On December 5, 2001, the Company issued 100,000 common shares to purchase technology [*note 8[b]*].

8. COMMITMENTS

[a] As at December 31, 2001, the Company is committed to aggregate expenditures of $179,255 [June 30, 2001 - $263,745] under its collaboration agreements.

[b] On December 5, 2001, the Company purchased patents for a methyldonor technology from Biogenesys, Inc. ["Biogenesys"] for $137,000 through the issuance of 100,000 common shares. Since the signing of the purchase agreement ["Agreement"], the Company has issued more than 2,000,000 common shares from Treasury, and therefore, under the terms of the Agreement, if the closing price of the Company's common shares on the CDNX on June 5, 2002 [the "Closing Price"] is less than $1.37 per share, the Company is required to issue additional common shares to Biogenesys such that based on the Closing Price the market value of the total shares issued to Biogenesys is $137,000. As part of the Agreement the Company will pay Biogenesys an on-going royalty equal to 0.5% of net sales of any product or process claimed under the acquired patents. As a condition of the purchase, the Company entered into a license agreement [the "License Agreement"] with Biogenesys dated December 4, 2001. Under the License Agreement, the Company granted an exclusive worldwide license to Biogenesys for the use of the acquired patents in the therapeutic areas of HIV, HIV encephalopathy, psychiatric disorders, Alzheimer's disease and rheumatological disease for no additional consideration. The License Agreement expires when the patents expire.

9. SEGMENTED INFORMATION

The Company considers itself to be in one business segment, that is the research and development of therapeutic agents and operates in Canada.

10. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2001 consolidated financial statements.

11. SUBSEQUENT EVENTS

On January 15, 2002, Waratah Pharmaceuticals Inc. ("Waratah") and a newly formed subsidiary of the Company were amalgamated in accordance with the provisions of the Canadian Business Corporations Act to form a new wholly-owned subsidiary of the Company which operates under the name "Waratah Pharmaceuticals Inc." Shareholders of Waratah received 0.83333 common shares of the Company for each common share of Waratah held. All outstanding warrants and options to acquire Waratah shares were cancelled and replaced with warrants and options of the new amalgamated entity on a one-for-one basis. Each such warrant or option is exercisable into common shares of the Company with appropriate adjustments to the number of common shares and on the same terms as to exercise time, exercise price and expiry and all other terms and conditions of the cancelled Waratah warrant or option, as the case may be. On the effective date of the transaction, Waratah had 4,853,616 warrants and 2,545,500 options outstanding. This transaction will be accounted for using the purchase method with the Company identified as the acquirer. On January 15, 2002, the Company issued approximately 21,268,000 common shares to purchase the common shares of Waratah.

During the period ended December 31, 2001, the Company incurred $526,532 of legal and other costs related to the purchase of Waratah. These costs have been capitalized as deferred acquisition costs and will be recorded as part of the purchase in the third quarter of fiscal 2002.

Stock Symbol
TTH

Exchange
CDNX

Fiscal Year End
June 30