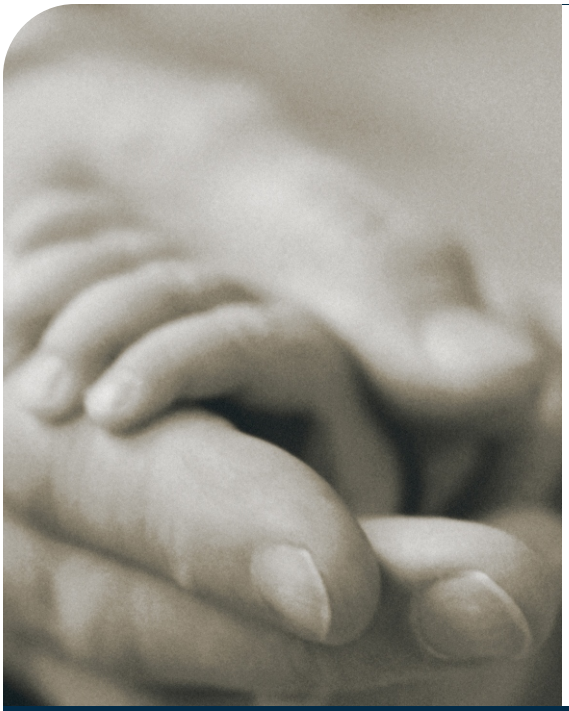

Transition therapeutics inc.

Second Quarter Results
2003

We Believe In...

To Our Shareholders,

Our main areas of focus over the quarter were increasing shareholder value by advancing our products through to the clinic and securing additional financing. We have made significant progress in both areas. We anticipate completion of dosing in both clinical trials in early 2003. We commenced a Phase I human clinical trial for our Interferon Enhancing Therapy in August 2002, and a Phase I human clinical trial for our Islet Neogenesis Therapy (I.N.T.™) in October 2002, meeting our milestone of having a product in clinical trials within 18 months of going public. In terms of securing additional financing, we raised $2 million dollars, on November 27, 2002, from a private placement. Proceeds from the private placement will be used to advance Transition's two ongoing Phase I studies in diabetes and multiple sclerosis and prepare to initiate phase II studies.

The quarter was highlighted by:

- Approval by the regulatory authorities in the United Kingdom in September 2002 to begin a dose escalating Phase I human clinical trial for our Islet Neogenesis Therapy (I.N.T.™). Dosing for this trial began in October 2002 and it is expected that the trial will be completed in early calendar 2003.
- Nearing completion of a Phase I human clinical trial for our Interferon Enhancing Therapy
- Further advancement in the validation of our restenosis products in collaboration with Reddy US Therapeutics Inc.
- Establishing and strengthening collaborations with leading investigators in diabetes, multiple sclerosis ("MS") and stroke;
- Completion of a private placement raising $2 million
- Acquisition of 46% of Stem Cell Therapeutics Inc. ("SCT"), a privately held company that is investigating regenerative therapies for stroke and Parkinson's disease, and;
- The filing of 9 patents

In addition, subsequent to December 31, 2002, Transition completed the acquisition of all the outstanding equity securities of SCT on January 31, 2003. The consideration given for the 54% of SCT that Transition did not previously own was 2,776,191 common shares of Transition.

The Financing and the Acquisition of shares of SCT

On November 27, 2002, the Company completed a private placement that raised $2 million through the issuance of 5,715,432 common shares at a price of $0.35 per share (the "Private Placement"). The Company received $517,000 from Dr. Tony Cruz, Chairman and CEO, approximately $1 million from the vendors of the series A special warrants and series B special warrants of SCT, as discussed below, and the remaining financing from other investors.

On November 27, 2002, the Company completed the acquisition of 17,600,000 series A special warrants ("A Warrants") and 4,000,000 series B special warrants ("B Warrants") of SCT in exchange for 8,129,000 Class B non-voting shares in the Company.

On January 31, 2003 the Company acquired all of the outstanding equity securities of SCT. The consideration given for the 54% of SCT that Transition did not previously own was 2,776,191 common shares of Transition.

The acquisition of SCT provides Transition with two leading regenerative therapies for the treatment of stroke and Parkinson's disease, and numerous patents protecting the use of hormones and growth factors to stimulate islet cell and neuronal cell regeneration in vivo for the treatment of diabetes and neuronal diseases, respectively.

Advancing Our Products

Transition continues to be committed to advancing its products through to clinical development. The acquisition of SCT regenerative technologies, combined with Transition's Islet Neogenesis Therapy will help position Transition as a leader in regenerative medicines. In addition, we reached significant milestones in our diabetes and multiple sclerosis product development programs this quarter and will continue to add value to our company by furthering our product development initiatives. Our commitment to our shareholders is to move at least one, and if finances allow, both of our products into Phase II human clinical trial during the 2003 calendar year.

Liquidity

Transition has incurred losses of $7,791,363 in fiscal 2002 and $1,753,784 in fiscal 2001. At December 31, 2002, cash and short-term investments were $2.9 million and Transition had working capital of $2.8 million, compared to working capital of $4.3 million at June 30, 2002. As of December 31, 2002 the net working capital represents approximately seven months of anticipated expenditures.

Outlook

Over the near term we are focused on meeting our clinical milestones to advance our Interferon Enhancing Therapy and Islet Neogenesis Therapy into Phase II human clinical trials in 2003. We are also focused on securing adequate financing through public or private placements, corporate collaborations or partnership arrangements to support two years of anticipated expenditures.

On behalf of the Board of Directors, I would like to thank our investors and employees for their commitment and dedication to Transition. Your support has allowed Transition to build a strong product portfolio and your continued support will allow us to keep Transition poised for a future of success.

Tony Cruz
CEO
Transition Therapeutics Inc.

Management's Discussion & Analysis

The following information should be read in conjunction with the Company's 2002 audited consolidated 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 diabetes, multiple sclerosis ("MS"), restenosis, and stroke. The Company commenced operations in July 1998, and has devoted its resources primarily to fund its research and development programs. All revenue to date has been generated from interest income on surplus funds and the sale of reagents. The Company has incurred a cumulative deficit to December 31, 2002 of $15,901,340. Losses are expected to continue for the next several years as the Company invests in research and development, pre-clinical studies, clinical trials and regulatory compliance.

To date the Company has achieved significant milestones and expects to achieve many more important milestones over the next year. The Company completed dosing for the Phase I clinical trial in the United Kingdom for diabetes Islet Neogenesis Therapy ("I.N.T.™"), in January 2003. In addition, during August 2002, the Company commenced a Phase I clinical trial in Canada for its MS Interferon Enhancing Therapy. Initial dosing for this trial was completed as expected by January 31, 2003. An additional dose range has been added to the MS study thereby extending the completion date of dosing for the study to April 15, 2003.

On November 27, 2002, the Company completed the acquisition of 17,600,000 series A special warrants ("A Warrants") and 4,400,000 series B special warrants ("B Warrants") of Stem Cell Therapeutics Inc. ("SCT") in exchange for 8,129,000 Class B non-voting shares in the Company. SCT is a privately held company that is investigating regenerative therapies for stroke and Parkinson's disease. Subsequent to December 31, 2002, on January 31, 2003, the Company acquired the remaining outstanding equity securities of Stem Cell Therapeutics Inc. ("SCT") in consideration for 2,776,191 common shares of the Company. The Company now owns 100% of SCT and commencing in the third quarter of fiscal 2003, the financial results of SCT will be consolidated with the financial results of the Company.

On November 27, 2002, the Company completed a private placement which raised approximately $2 million through the issuance of 5,715,432 common shares of the Company at a price of $0.35 per share. In addition, as additional consideration in connection with the private placement, the Company granted a dealer, a company owned by a director of the Company, share purchase warrants entitling the dealer to acquire 26,000 common shares at a purchase price of $0.35 per share. These warrants expire on May 27, 2004.

The Company's cash and cash equivalents plus short-term investments was $2,869,725 at December 31, 2002. As of December 31, 2002 the net working capital represents approximately seven months of anticipated expenditures including the completion of Phase I clinical trials for diabetes and MS. The Company is currently pursuing additional sources of funding through public or private placements, corporate collaborations or partnership arrangements, but can offer no assurance that it will be successful. In the event that the Company is unable to secure additional funding, there would be doubt about the Company's ability to continue as a going concern.

Results of operations

For the three-month period ended December 31, 2002, the Company recorded a net loss of $2,714,625 ($0.05 per common and Class B share) compared to a net loss of $634,542 ($0.03 per common and Class B share) for the three-month period ended December 31, 2001. For the six months ended December 31, 2002, the Company recorded a net loss of $5,826,385 ($0.12 per common and Class B share) compared to a net loss of $1,156,739 ($0.05 per common and Class B share) for the six months ended December 31, 2001. The increase in the loss is primarily due to the research, toxicology studies and clinical expenditures related to the development of the Company's two leading products: Islet Neogenesis Therapy (I.N.T.™) and Interferon Enhancing Therapy, accounting for the equity loss on investment in SCT, additional estimated lease exit costs for the closure of the Waratah Pharmaceuticals Inc. ("Waratah") facility in Woburn, MA, and the amortization and tax recovery resulting from the technology acquired through the acquisition of Waratah.

Interest income

Interest income for the three-month period ended December 31, 2002, was $9,142 as compared to $57,989 for the three-month period ended December 31, 2001. Interest income for the six months ended December 31, 2002 was $23,702 as compared to $148,151 for the six months ended December 31, 2001. The decrease in interest income resulted from a decrease in the cash and cash equivalents and short-term investments balance of $3,351,547 between the period ended December 31, 2002 and the period ended December 31, 2001.

Research and development, net

Research and development expenses increased to $886,416 for the three-month period ended December 31, 2002 from $393,363 for the same period in 2001. Research and Development expenses increased to $2,524,067 for the six months ended December 31, 2002 from $740,235 for the same period in fiscal 2002. The primary reasons for the increase in expenditures included: the acquisition of Waratah which added research and development costs for the I.N.T™ technology, and the expenses relating to the Company's Phase I clinical trial for its MS Interferon Enhancing Therapy the costs associated with the commencement and completion of a dose escalating Phase I human clinical trial for the Company's diabetes I.N.T.™ The Company does not anticipate a significant increase in research and development expenses in the third quarter of fiscal 2003.

General and administrative expenses

General and administrative expenses increased to $598,713 for the three-month period ended December 31, 2002 from $287,613 for the three-month period ended December 31, 2001. General and administrative expenses increased to $977,971 for the six-month period ended December 31, 2002 from $541,545 for the same period in fiscal 2002. The primary reasons for the increase include: an increase in operating expenses as a result of the acquisition of Waratah, additional estimated lease exit costs for the closure of the Waratah facility in Woburn, MA and an increase in corporate governance. The Company does not anticipate a significant increase in general and administrative expenses for the third quarter of fiscal 2003.

Liquidity and capital resources

At December 31, 2002 the Company's cash and cash equivalents plus short-term investments was $2,869,725, and the Company's working capital position was $2,758,136. These positions were down significantly from the June 30, 2002 balances of $4,411,002 for cash and cash equivalents plus short-term investments and $4,325,086, for the working capital position. The decreases resulted primarily from the expenditures on research and development activities and operating expenses.

The Company's cash and cash equivalents plus short-term investments was $2,869,725 at December 31, 2002. As of December 31, 2002 the net working capital represents approximately seven months of anticipated expenditures.

The success of the Company is dependent on bringing its products to market, obtaining necessary regulatory approval and achieving future profitable operations. Successful completion of these activities is necessary to allow the Company to continue research and development activities and commercialization of its products. It is not possible to predict either the outcome of future research and development programs or the Company's ability to fund these programs going forward. There is no assurance that additional financing will be available on acceptable terms, if at all. In the event that the Company is unable to obtain additional financing there would be doubt about the ability of the Company to continue as a going concern and consequently the Company may be required to reduce the scope of, or eliminate one or more of its research and development programs or may be required to scale back, sell or cease operations.

Capital expenditures

During the three months ended December 31, 2002, and three months ended December 31, 2001 the Company did not have any capital expenditures. During the six months ended December 31, 2002, the Company's capital expenditures were $605 as compared to $25,600 for the six months ended December 31, 2001. The Company does not anticipate any significant capital expenditures during fiscal 2003.

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 highly 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. The Company is currently pursuing additional sources of funding, but can offer no assurance that it will be successful. In the event that the Company is unable to secure additional funding, there would be doubt about the Company's ability to continue as a going concern.

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

The Company expects to continue to achieve important milestones over the year. Dosing for the Company's MS Interferon Enhancing Therapy Phase I clinical trial is expected to be completed by April 15, 2003 and dosing for the Company's INT dose escalating Phase I human clinical trial was completed in January 2003.

On January 31, 2003 the Company completed the acquisition of all the outstanding equity securities of SCT. The consideration for the acquisition of the remaining 54% of SCT was 2,776,191 common shares of the Company. This transaction will be accounted for using the purchase method with the Company identified as the acquirer.

The Company is currently in discussions with corporate partners who are interested in establishing licensing, co-development and other such relationships.

During fiscal 2003, the Company also plans to continue the development of its product pipeline in diabetes, MS, restenosis, and stroke.

CONSOLIDATED BALANCE SHEETS

[*See note 1*]

	Unaudited December 31, 2002 $	Audited June 30, 2002 $
ASSETS		
Current		
Cash and cash equivalents	1,753,000	2,894,277
Short-term investments	1,116,725	1,516,725
Interest receivable	18,275	5,180
GST receivable	22,149	55,047
Accrued accounts receivable	48,657	4,434
Investment tax credits receivable	370,400	276,400
Research inventory	848,009	879,232
Deposits on collaborations	-	282,201
Prepaid expenses and other assets	128,543	236,456
Total current assets	4,305,758	6,149,952
Long-term deposits	172,773	166,212
Capital assets, net	552,546	619,593
Investments [*note 4*]	2,287,514	-
Technology [*note 3*]	32,278,919	36,272,608
	39,597,510	43,208,365
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,525,206	1,797,273
Current portion of leasehold inducement	3,698	3,698
Current portion of obligation under capital leases	18,718	23,895
Total current liabilities	1,547,622	1,824,866
Leasehold inducement	23,426	25,274
Obligation under capital leases	45,410	52,272
Future tax liability	5,755,380	7,490,963
Total liabilities	7,371,838	9,393,375
Research commitments [*note 7*]		
Subsequent events [*note 9*]		
Shareholders' equity		
Common shares [*note 5[b]*]	40,735,661	38,779,654
Class B shares [*note 5[b]*]	4,109,771	1,833,651
Contributed surplus [*note 5[c]*]	2,444,102	-
Stock options [*note 5[c]*]	832,538	890,288
Warrants [*note 5[c]*]	4,940	2,386,352
Deficit	(15,901,340)	(10,074,955)
Total shareholders' equity	32,225,672	33,814,990
	39,597,510	43,208,365

See accompanying notes

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(Unaudited)

	Six-month period ended December 31, 2002 $	Six-month period ended December 31, 2001 $	Three-month period ended December 31, 2002 $	Three-month period ended December 31, 2001 $
EXPENSES				
Research and development, net	2,524,067	740,235	886,416	393,363
General and administrative	977,971	541,545	598,713	287,613
Amortization	4,053,146	23,110	2,026,681	11,555
Foreign exchange (gain) loss	(3,339)	-	3,545	-
	7,551,845	1,304,890	3,515,355	692,531
Loss before the undernoted	(7,551,845)	(1,304,890)	(3,515,355)	(692,531)
Interest income, net	23,702	148,151	9,142	57,989
Equity loss in affiliate [*note 4*]	(10,425)	-	(10,425)	-
Loss before income taxes	(7,538,568)	(1,156,739)	(3,516,638)	(634,542)
Provision for (recovery of) income taxes				
Current	23,400	-	13,400	-
Future	(1,735,583)	-	(815,413)	-
Net loss for the period	(5,826,385)	(1,156,739)	(2,714,625)	(634,542)
Deficit, beginning of period	(10,074,955)	(2,283,592)	(13,186,715)	(2,805,789)
Deficit, end of period	(15,901,340)	(3,440,331)	(15,901,340)	(3,440,331)
Basic net loss per common and Class B share [*note 5[b]*]	**$(0.12)**	**$(0.05)**	**$(0.05)**	**$(0.03)**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six-month period ended December 31, 2002 $	Six-month period ended December 31, 2001 $	Three-month period ended December 31, 2002 $	Three-month period ended December 31, 2001 $
OPERATING ACTIVITIES				
Net loss for the period	(5,826,385)	(1,156,739)	(2,714,625)	(634,542)
Add (deduct) items not involving cash				
Amortization	4,061,341	35,639	2,031,037	18,961
Amortization of leasehold inducement	(1,848)	(1,848)	(924)	(924)
Recovery of income taxes - future	(1,735,583)	-	(815,413)	-
Equity loss	10,425	-	10,425	-
	(3,492,050)	(1,122,948)	(1,489,500)	(616,505)
Net change in non-cash working capital balances related to operations [*note 6*]	24,289	189,533	(9,553)	360,585
Cash used in operating activities	(3,467,761)	(933,415)	(1,499,053)	(255,920)
INVESTING ACTIVITIES				
Maturity of short-term investments	400,000	3,000,000	400,000	3,000,000
Purchase of short-term investments	-	-	-	-
Purchase of capital assets	(605)	(25,600)	-	-
Acquisition costs on SCT purchase	(21,819)	-	(21,819)	-
Cash provided by investing activities	377,576	2,974,400	378,181	3,000,000
FINANCING ACTIVITIES				
Repayment of obligation under capital leases	(12,039)	(14,507)	(3,174)	(2,201)
Proceeds from issuance of common shares, net [*note 6*]	1,960,947	117,188	1,960,947	-
Increase in deferred acquisition costs	-	(526,532)	-	(526,532)
Cash provided by (used in) financing activities	1,948,908	(423,851)	1,957,773	(528,733)
Net increase (decrease) in cash and cash equivalents during the period	(1,141,277)	1,617,134	836,901	2,215,347
Cash and cash equivalents, beginning of period	2,894,277	4,604,138	916,099	4,005,925
Cash and cash equivalents, end of period	1,753,000	6,221,272	1,753,000	6,221,272

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Transition Therapeutics Inc. [the "Company"] is a biopharmaceutical 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 diabetes, multiple sclerosis, restenosis, and stroke.

The success of the Company is dependent on bringing its products to market, obtaining the necessary regulatory approvals and achieving future profitable operations. The continuation of the research and development activities and the commercialization of its products are dependent on the Company's ability to successfully complete these activities and to obtain adequate financing through a combination of financing activities and operations. It is not possible to predict either the outcome of future research and development programs or the Company's ability to fund these programs going forward.

The Company has had significant losses in each of the past two years. The Company's cash and cash equivalents plus short-term investments was $2,869,725 at December 31, 2002 which represents approximately seven months of anticipated expenditures including the completion of Phase I clinical trials for diabetes and multiple sclerosis. The Company is currently pursuing additional sources of funding through public or private placements, corporate collaborations or partnership arrangements but can offer no assurance that it will be successful. In the event that the Company is unable to obtain additional financing there would be doubt about the ability of the Company to continue as a going concern.

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. See note 7 for the Company's current research commitments. 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, 2002, except for the accounting principles discussed in note 2.

2. CHANGE IN ACCOUNTING POLICIES

Stock based compensation

On July 1, 2002, the Company adopted the recommendations in Handbook Section 3870, “Stock-Based Compensation and Other Stock-Based Payments”, issued by The Canadian Institute of Chartered Accountants. In accordance with the recommendations the Company has applied them only to awards granted on or after the date of adoption. Options granted to employees may be accounted for using either the intrinsic value or the fair-value based method. The Company applies the intrinsic value method of accounting for stock based compensation awards granted to employees. Accordingly, no compensation cost is recognized for its Employee Stock Option Plan. Had compensation cost for the Company's Stock Option Plan been determined based on the fair value at the grant dates for awards under this Plan, consistent with the fair value based method of accounting for stock-based compensation, the Company's net loss and net loss per common and Class B share would have been increased to the pro-forma amounts indicated below:

		Six-month Period ended December 31, 2002 $	Three-month Period ended December 31, 2002 $
Net loss	As reported	(5,826,385)	(2,714,625)
	Pro-forma	(5,833,135)	(2,721,375)
Net loss per common and Class B share	As reported	(0.12)	(0.05)
	Pro-forma	(0.12)	(0.05)

The fair value of the options at the date of grant was estimated using the Black-Scholes option pricing model based on the following assumptions: expected option life in years between 2-4 years, volatility of 1.189, a risk free interest rate of between 2.55% and 3.2% and a dividend yield of 0%.

Investments

Investments are accounted for at cost when the conditions for equity accounting are not present and on the equity basis when significant influence exists. Declines in market values of investments are expensed when such declines are considered to be other than temporary.

3. TECHNOLOGY

Technology consists of the following:

	December 31, 2002		
	Cost $	Accumulated amortization $	Net book value $
Acquired on acquisition of Waratah Pharmaceuticals Inc.	**39,799,917**	**7,628,318**	**32,171,599**
Acquired from Biogenesys, Inc.	**137,000**	**29,680**	**107,320**
	39,936,917	**7,657,998**	**32,278,919**

The amortization to be taken on the technology by fiscal year is as follows:

	$
2003	7,987,383
2004	7,987,383
2005	7,987,383
2006	7,987,383
2007	4,323,076
	36,272,608

4. INVESTMENTS

	December 31, 2002 $	June 30, 2002 $
Investment in Stem Cell Therapeutics Inc., on equity basis [a]	2,287,514	-

[a] On November 27, 2002, the Company completed the acquisition of 17,600,000 series A special warrants (“A Warrants”) and 4,400,000 series B special warrants (“B Warrants”) of Stem Cell Therapeutics Inc. (“SCT”) in exchange for 8,129,000 Class B non-voting shares in the Company. SCT is a privately held company that is investigating regenerative therapies for stroke and Parkinson's disease. Three directors of the Company were also directors for SCT. On exercise of the A Warrants, the Company will receive one preferred share and one half of a preferred share purchase warrant of SCT and on exercise of the B Warrants, the Company will receive one common share and one

series B purchase warrant of SCT. On exercise of the A Warrants and B Warrants, the Company will, for no further consideration own approximately 46% of the outstanding share capital of SCT, subject to a limitation on conversion of the preferred shares to a maximum of 10% of the issued and outstanding common shares. Through the exercise of the preferred share purchase warrants and the series B purchase warrants, and the payment of additional consideration, the Company could own up to 57% of the share capital of SCT. The investment in SCT is accounted for using the equity method. Total consideration paid for the investment in SCT is as follows:

	$
Class B shares	2,276,120
Acquisition costs	21,819
	2,297,939

Subsequent to December 31, 2002, on January 31, 2003, the Company acquired the remaining outstanding equity securities of SCT in consideration for 2,776,191 common shares of the Company. The Company now owns 100% of SCT and commencing in the third quarter of fiscal 2003, the financial results of SCT will be consolidated with the financial results of the Company.

5. SHARE CAPITAL

[a] Authorized

Unlimited common shares

Unlimited Class B shares

[b] Issued and outstanding and changes during the period

Common shares	#	$
Balance, June 30, 2002	43,607,208	38,779,654
Issued for pursuant to private placement, net [*i*]	5,715,432	1,956,007
Balance, December 31, 2002	**49,322,640**	40,735,661
Class B shares	#	$
Balance, June 30, 2002	2,425,000	1,833,651
Issued for purchase of Stem Cell Therapeutics Inc. [*note 4*]	8,129,000	2,276,120
Balance, December 31, 2002	**10,554,000**	**4,109,771**
Total common and Class B shares, December 31, 2002	59,876,640	44,845,432

[i] On November 27, 2002, the Company sold 5,715,432 common shares at a purchase price of $0.35 per common share through a private placement for a total amount of $2,000,401. The net proceeds of the private placement were $1,960,947. The Company received $517,000 from Dr. Tony Cruz, Chairman and CEO, approximately $1 million from the vendors of the A Warrants and B Warrants and the remaining financing from other investors. In addition, as additional consideration in connection with the private placement, the Company granted a dealer, a company owned by a director of the Company, share purchase warrants entitling the dealer to acquire 26,000 common shares at a purchase price of $0.35 per share. The fair value of the warrants at the date of grant was estimated as $4,940 using the Black-Scholes option pricing model based on the following assumptions: expected option life in years of 1.5 years, volatility of 1.189, a risk free rate of 2.55% and a dividend yield of 0%. These warrants expire on May 27, 2004.

The weighted average number of shares used in the computation of basic net loss per common and Class B share for the six-month period ended December 31, 2002 is 47,580,907 (six-month period ended December 31, 2001 - 23,390,652) and the three-month

period ended December 31, 2002 is 50,139,118 (three-month period ended December 31, 2001 - 23,425,197).

For the six-month period ended December 31, 2002, 1,009,511 (six-month period ended December 31, 2001 - 1,172,901) and for the three-month period ended December 31, 2002, 1,009,511 (three-month period ended December 31, 2001 - 1,172,901) contingently returnable common shares were excluded from the basic net loss per common and Class B share calculation.

[c] Stock options and share purchase warrants

Share purchase warrants	#	$
Share purchase warrants outstanding, June 30, 2002	4,467,164	2,386,352
Share purchase warrants expired	(4,467,164)	(2,386,352)
Share purchase warrants issued on private placement [*note 5[b][i]*]	26,000	4,940
Share purchase warrants outstanding, December 31, 2002	**26,000**	**4,940**

On August 28, 2002, 422,500 of the share purchase warrants expired and 4,044,664 of the share purchase warrants expired on September 19, 2002. The share purchase warrants that expired on September 19, 2002 were included as part of the consideration for the acquisition of Waratah Pharmaceuticals Inc. ("Waratah"). Therefore, the consideration associated with these warrants was reclassified to contributed surplus when they expired.

Stock options	#
Stock options outstanding, June 30, 2002	4,020,121
Stock options issued	80,000
Stock options expired	(151,036)
Stock options outstanding, December 31, 2002	**3,949,085**

Of the stock options that expired, 91,666 were included as part of the consideration for the acquisition of Waratah. Therefore, the consideration associated with these options was reclassified to contributed surplus when they expired.

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, 2002 $	Six-month period ended December 31, 2001 $	Three-month period ended December 31, 2002 $	Three-month period ended December 31, 2001 $
Interest receivable	(13,095)	103,823	(2,745)	149,437
GST receivable	32,898	74,033	33,601	(24,429)
Accrued accounts receivable	(44,223)	-	(32,289)	-
Investment tax credits receivable	(94,000)	(44,219)	(70,000)	(23,081)
Research inventory	31,223	(19,837)	30,625	(12,345)
Deposits on collaborations	282,201	(96,356)	28,118	(69,119)
Prepaid expenses and other assets	107,913	(65,787)	61,984	(63,968)
Long-term deposits	(6,561)	-	1,094	-
Accounts payable and accrued liabilities	(272,067)	237,876	(59,941)	404,090
	24,289	189,533	(9,553)	360,585
Supplemental cash flow information				
Interest paid	5,176	2,088	1,101	1,007

The transaction cost for the issuance of the warrants of $4,940 is a non-cash transaction and therefore does not reduce the net proceeds from the issuance of common shares of $1,960,947 reported in the consolidated statements of cash flows.

7. RESEARCH COMMITMENTS

As at December 31, 2002, the Company is committed to aggregate expenditures of $250,694 [June 30, 2002 - $264,444] under its collaboration agreements. In addition, at December 31, 2002, the Company is committed to aggregate expenditures of approximately $654,704 [June 30, 2002 - $913,635] for clinical and toxicity studies to be completed during fiscal 2003 and approximately $16,900 [June 30, 2002 - $440,835] for manufacturing agreements.

8. SEGMENTED INFORMATION

The Company considers itself to be in one business segment, that is the research and development of therapeutic agents. Following the acquisition of Waratah, the Company's operations are conducted in Canada and the United States. Geographic segment information is as follows:

	Canada $	United States $
Net loss:		
Six-months ended December 31, 2002	5,262,745	563,640
Six-months ended December 31, 2001	1,156,739	-
Three-months ended December 31, 2002	2,533,041	181,584
Three-months ended December 31, 2001	634,542	-
Amortization of capital assets:		
Six-months ended December 31, 2002	28,839	38,813
Six-months ended December 31, 2001	35,639	-
Three-months ended December 31, 2002	14,677	18,515
Three-months ended December 31, 2001	18,961	-
Interest income (expense):		
Six-months ended December 31, 2002	27,959	(4,257)
Six-months ended December 31, 2001	148,151	-
Three-months ended December 31, 2002	11,030	(1,888)
Three-months ended December 31, 2001	57,989	-
Income taxes:		
Six-months ended December 31, 2002	-	23,400
Six-months ended December 31, 2001	-	-
Three-months ended December 31, 2002	-	13,400
Three-months ended December 31, 2001	-	-
Recovery of income taxes - future:		
Six-months ended December 31, 2002	1,735,583	-
Six-months ended December 31, 2001	-	-
Three-months ended December 31, 2002	815,413	-
Three-months ended December 31, 2001	-	-
Capital assets:		
December 31, 2002	249,458	303,088
June 30, 2002	277,692	341,901

9. SUBSEQUENT EVENTS

Subsequent to December 31, 2002, on January 31, 2003, the Company acquired the remaining outstanding equity securities of SCT in consideration for 2,776,191 common shares of the Company. The Company now owns 100% of SCT and commencing in the third quarter of fiscal 2003, the financial results of SCT will be consolidated with the financial results of the Company. This transaction will be accounted for using the purchase method with the Company identified as the acquirer.

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