TRANSITION THERAPEUTICS INC.

Second Quarter Results
2004

Transition
therapeutics inc.

TO OUR SHAREHOLDERS

It is my pleasure to report on the significant progress that Transition has made during the second quarter of fiscal 2004.

The quarter was highlighted by:

- Conclusion of an agreement granting Novo Nordisk A/S ("Novo Nordisk") an exclusive option to license Transition's Islet Neogenesis Therapy ("I.N.T.™");
- Identification of a new I.N.T.™ product opportunity for diabetes transplant patients; and
- Continued advancement of products through clinical development across Transition's pipeline.

Highlights subsequent to the quarter end included:

- Reporting of positive pre-clinical data for a second Islet Neogenesis Therapy, GLP1-I.N.T.™;
- Reporting of the issuance of two patents for I.N.T.™ further strengthening our patent position for regenerative therapies;
- Completion of the enrolment and dosing phase of an extended Phase I clinical trial for I.N.T.™; and
- Completion of a private placement financing that will significantly strengthen the balance sheet, raising gross proceeds of $15 million.

Agreement with Novo Nordisk

In November 2003, Transition signed an agreement granting Novo Nordisk an exclusive option to license its I.N.T.™ technology. Under the agreement, Novo Nordisk has provided Transition with $652,400 (US$500,000) for the further development of the I.N.T.™ Technology. Following the review of research data from the ongoing development program, which Transition expects to occur in the third quarter of calendar 2004, Novo Nordisk must exercise its exclusive option or the option will expire.

If the option is exercised, Novo Nordisk will execute a licensing agreement with an upfront payment and equity investment (at then market prices) of approximately US$5 million and development milestone payments potentially worth up to an additional US$51.5 million. In addition, Transition will be entitled to receive commercial milestone payments and royalty payments on sales.

I.N.T.™ for Transplantation

Islet cell transplantation is emerging as an effective treatment for insulin-dependent diabetes, but the number of transplantation procedures is limited by the lack of availability of sufficient islet cells as well as the absence of a standardized method for islet cell preparation and difficulties in distributing the cells to potential transplantation facilities.

During the second quarter, Transition reported data demonstrating that I.N.T.™ may have an application in increasing the number and longevity of islet cells prior to transplantation, thus allowing for better utilization of donated tissues and the performance of a greater number of transplantations in diabetic patients.

This additional product opportunity for Transition may have the advantage of a shortened product development cycle and earlier product revenues. Transition is currently completing validation and optimization studies for this product. Following their conclusion, Transition will commence a clinical proof of concept program in humans.

Product Development

During the second quarter, Transition commenced an extended Phase I clinical trial for its I.N.T.™ technology. The enrolment and dosing phase of this trial was completed during February 2004. Data from the clinical trial will be used to set dosing regimens for a Phase II clinical trial testing the combination of I.N.T.™ growth factors E1 and G1. Transition intends to commence a Phase II clinical trial for I.N.T.™ during the first quarter of fiscal 2005.

Transition has completed a Phase I clinical trial for its interferon enhancer, EMZ701. During this trial, all dose levels were well tolerated and no adverse events occurred. Transition is now preparing to initiate a Phase II clinical trial in patients with multiple sclerosis and expects to commence this trial during fiscal 2004.

Finally, the compounds selected as our lead restenosis inhibiting compounds are expected to enter final validation studies in animal models early in calendar 2004. This will position Transition to pursue partnership opportunities to co-develop local delivery formulations.

Additional Product Opportunity

Subsequent to quarter-end, Transition reported positive pre-clinical efficacy data for a second Islet Neogenesis Therapy, GLP1-I.N.T.™. GLP1-I.N.T.™ combines the current leading diabetes drug candidate, Glucagon-Like Peptide (”GLP-1”), with Transition's gastrin analogue (”G1”).

Based on this efficacy data, Transition is pursuing two additional product opportunities including the development of GLP1-I.N.T.™, a combination GLP-1-G1 compound, and a stand alone G1 compound as an adjunct to other GLP-1 products currently in development. Leveraging previous pre-clinical and clinical data on G1, and the well accepted clinical profile of GLP-1 analogues, Transition intends to initiate a Phase I/II study in the second quarter of fiscal 2005.

Financial Strength

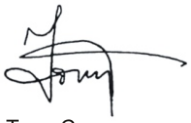
On February 24, 2004, the Company closed a private placement financing issuing 23,076,923 common shares at a purchase price of $0.65 per common share, for total gross proceeds of $15 million. The proceeds from this financing will be used for research and development and general corporate purposes. Based on the Company's current anticipated expenditures, the Company believes that it will have adequate financing until early fiscal 2007.

Outlook

Transition is focused on continuing to build shareholder value by advancing our products through the clinic, identifying new products and building strong partnerships. Clinical development will be highlighted by our lead I.N.T.™ technology and interferon enhancing therapy (“I.E.T.”) entering Phase II clinical trials. In addition, Transition will continue to identify new product opportunities such as GLP1-I.N.T.™ and accelerate their entry into the clinic.

Transition will also continue to work closely with Novo Nordisk in pursuit of a long-term agreement that will support further development of the expanding I.N.T.™ platform technology. We are also pursuing discussions with potential corporate partners concerning licensing, co-development and other opportunities for other products in our pipeline including our interferon enhancing technology and our restenosis inhibitors.

On behalf of the Board of Directors, I would like to express my thanks to our investors and employees for their commitment and dedication to Transition. Your support has allowed Transition to build a strong product portfolio, and I am convinced that your continued support will allow Transition to continue to make great strides forward. I look forward to reporting on our progress.



Tony Cruz
Chairman and CEO
Transition Therapeutics Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following information should be read in conjunction with the Company's unaudited interim financial statements included herein as well as the June 30, 2003 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 biopharmaceutical company, engaged in the business of developing novel approaches and therapeutics with the potential for enhancing the quality of life of patients with such debilitating diseases as diabetes, multiple sclerosis and restenosis. 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, 2003 of $26,525,353. Losses are expected to continue for the next several years as the Company invests in research and development, pre-clinical studies, clinical trials, manufacturing and regulatory compliance. The success of the Company is dependent on bringing its products to market, obtaining necessary regulatory approvals and achieving future profitable operations.

The Company's cash and cash equivalents were $5,714,066 at December 31, 2003, and the net working capital position was $5,441,676. As a result of the private placement completed in February 2004, the Company now believes that it has adequate financing for anticipated expenditures until early fiscal 2007.

Financing Activities

On February 24, 2004, subsequent to the quarter end, under the terms of an underwriters agreement, the Company sold 23,076,923 common shares at a purchase price of $0.65 per common share, through a private placement, for total gross proceeds of $15 million.

As consideration in connection with the financing, the Company paid the underwriters a cash fee of $1.05 million and granted the underwriters 1,384,615 non-transferable warrants. Each warrant entitles the holder to purchase one common share of the Company at a purchase price of $1.00. These warrants expire on February 24, 2006 and the fair value of these warrants will be recorded as an additional expense for the private placement.

On July 24, 2003, the Company sold 1,111,111 common shares to Novo Nordisk A/S ("Novo Nordisk") at a purchase price of $0.45 per common share through a private placement for a total amount of $500,000. The cash proceeds of the private placement, net of expenses, were $474,325. In addition, the Company also granted Novo Nordisk a non-transferable right to acquire up to an additional 10,101,010 common shares of the Company at a price of $0.495 per share which right expired on October 1, 2003.

Option Agreement

In November 2003, the Company signed an agreement granting Novo Nordisk an exclusive option to license the Company's Islet Neogenesis Therapy ("I.N.T.™"). Under the agreement, Novo Nordisk has provided the Company with $652,400 (US$500,000) for the further development of the I.N.T.™ technology. Following the review of research data from the ongoing development program, which the Company expects to occur in the third quarter of calendar 2004, Novo Nordisk must exercise its exclusive option or the option will expire.

If the option is exercised, Novo Nordisk will execute a licensing agreement with an upfront payment and equity investment (at then market prices) of approximately US$5 million and development milestone payments potentially worth up to an additional US$51.5 million. In addition, the Company will be entitled to receive commercial milestone payments and royalty payments on sales.

The $652,400 received from Novo Nordisk has been recorded as deferred revenue. If the option is exercised, this amount will be taken into revenue over the term of the license agreement. If the option is not exercised, this amount will be taken into revenue when the option expires.

Results of Operations

For the three months ended December 31, 2003, the Company recorded a net loss of $2,574,126 ($0.03 per common and Class B share) compared to a net loss of $2,714,625 ($0.05 per common and Class B share) for the three months ended December 31, 2002. For the six months ended December 31, 2003, the Company recorded a net loss of $4,867,052 ($0.06 per common and Class B share) compared to a net loss of $5,826,385 ($0.12 per common and Class B share) for the six months ended December 31, 2002. The decrease in the loss is primarily due to a temporary decrease in research and development expenditures, as the Company completes an extended Phase I clinical trial for I.N.T.™ and prepares to commence Phase II clinical trials, partially offset by an increase in amortization due to the technology acquired from Stem Cell Therapeutics Inc., and a decrease in the recovery of future income taxes.

Interest Income

Interest income for the three months ended December 31, 2003, was $52,296 as compared to $9,142 for the three months ended December 31, 2002. Interest income for the six months ended December 31, 2003, was $96,752 as compared to $23,702 for the six months ended December 31, 2002. The increase in interest income resulted from an

increase in cash and cash equivalents and short-term investments between December 31, 2002 and December 31, 2003 of $2,844,341. This increase resulted from the Company completing several private placements late in fiscal 2003 and one private placement in the first quarter of fiscal 2004, offset by expenditures incurred between the dates. Interest income is expected to increase during the third quarter of fiscal 2004 due to higher cash balances resulting from the financing completed in February 2004.

Research and Development

Research and development expenses decreased to $676,944 for the three months ended December 31, 2003 from $886,416 for the same period in fiscal 2003. Research and development expenses decreased to $1,100,377 for the six months ended December 31, 2003 from $2,524,067 for the same period in fiscal 2003. This decrease resulted primarily from a temporary decrease in clinical and toxicity study expenses while the Company prepares for the next stage of clinical trials. The Company anticipates that research and development expenses will increase during the third quarter of fiscal 2004, as it completes an extended Phase I clinical trial for I.N.T.™, prepares for Phase II clinical trials for both its Interferon Enhancing Therapy ("I.E.T.") in patients with multiple sclerosis and I.N.T.™ in diabetics, and commences additional pre-clinical and toxicity studies for its technologies.

General and Administrative Expenses

General and administrative expenses decreased to $575,982 for the three months ended December 31, 2003 from $598,713 for the three months ended December 31, 2002. General and administrative expenses decreased to $939,925 for the six months ended December 31, 2003 from $977,971 for the six months ended December 31, 2002. The decrease resulted from savings realized from management's decision to close the Waratah Pharmaceuticals Inc. facility in Woburn, MA, partially offset by severance costs incurred relating to changes in the Company's management team and an increase in accounting fees. The Company anticipates that general and administrative expenses will decrease for the third quarter of fiscal 2004.

Liquidity and Capital Resources

The Company's cash and cash equivalents and the Company's working capital position were $5,714,066 and $5,441,676, respectively at December 31, 2003 down from June 30, 2003 balances of $6,857,576 and $6,343,029, respectively. The decrease is the net result of the private placement completed during July 2003 and expenditures incurred during the six months ended December 31, 2003.

As a result of the private placement completed in February 2004, the Company now believes that it has adequate financing for anticipated expenditures until early fiscal 2007.

Capital Expenditures

During the three months ended December 31, 2003, the Company's capital expenditures were $2,106, as compared to nil for the three months ended December 31, 2002. During the six months ended December 31, 2003, the Company's capital expenditures were $6,241, as compared to $605 for the six months ended December 31, 2002. The expenditures during the first two quarters of fiscal 2004 were for computer equipment. The Company does not anticipate any significant capital expenditures during the third quarter of fiscal 2004.

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 either the research and development stage or early in the clinical development stage, which are both risky stages for a company in the biopharmaceutical industry. It is not possible to predict, based upon studies in animals and early clinical data, whether a new therapeutic or device will prove to be safe and effective in humans. To date, 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 it will continue to incur losses as it continues its research and development and 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

The Company continues to be focused on driving shareholder value by advancing its products through clinical trials. In December 2003, the Company commenced an extended Phase I clinical trial for I.N.T.™. The Company completed the enrolment and dosing phase of this trial during February 2004.

During fiscal 2004, the Company intends to commence a Phase II clinical trial for I.E.T. in patients with multiple sclerosis, commence pre-clinical toxicity studies for additional I.N.T.™ products and select lead restenosis inhibitors to enter final validation studies. During the first quarter of fiscal 2005, the Company intends to commence a Phase II clinical trial for I.N.T.™ and during the second quarter of fiscal 2005, the Company intends to initiate a Phase I/II study for GLP1-I.N.T.™.

The Company continues to work closely with Novo Nordisk, who holds an option to license I.N.T.™, and is also pursuing discussions with potential corporate partners concerning licensing, co-development and other opportunities for its I.E.T and restenosis inhibitor technologies.

CONSOLIDATED BALANCE SHEETS

	Unaudited December 31, 2003 $	Audited June 30, 2003 $
ASSETS		
Current		
Cash and cash equivalents	**5,714,066**	6,857,576
Receivables	**38,685**	93,208
Investment tax credits receivable	**275,936**	458,400
Research inventory	**367,716**	379,956
Prepaid expenses and other assets	**88,278**	84,089
Future tax asset	**-**	66,250
Total current assets	**6,484,681**	7,939,479
Long-term deposits	**139,828**	148,202
Long-term research inventory	**295,386**	303,239
Capital assets, net	**477,836**	469,110
Technology *[note 2]*	**26,728,807**	31,020,940
	34,126,538	39,880,970
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**1,021,187**	1,576,741
Current portion of leasehold inducement	**3,698**	3,698
Current portion of obligation under capital leases	**18,120**	16,011
Total current liabilities	**1,043,005**	1,596,450
Leasehold inducement	**19,730**	21,578
Obligation under capital leases	**77,088**	36,261
Provision for facility closure	**349,104**	470,769
Deferred revenue *[note 3]*	**652,400**	-
Future tax liability	**2,879,116**	4,257,090
Total liabilities	**5,020,443**	6,382,148
Research commitments *[note 6]*		
Guarantees *[note 8]*		
Subsequent event *[note 9]*		
Shareholders' equity		
Common shares *[note 4[b]]*	**49,333,278**	48,415,433
Class B shares *[note 4[b]]*	**1,832,600**	2,276,120
Contributed surplus *[note 4[d]]*	**2,632,393**	2,461,769
Stock options *[note 4[d]]*	**644,247**	814,871
Warrants *[note 4[c]]*	**1,188,930**	1,188,930
Deficit	**(26,525,353)**	(21,658,301)
Total shareholders' equity	**29,106,095**	33,498,822
	34,126,538	39,880,970

See accompanying notes

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(Unaudited)

	Six-month period ended December 31, 2003 $	Six-month period ended December 31, 2002 $	Three-month period ended December 31, 2003 $	Three-month period ended December 31, 2002 $
EXPENSES				
Research and development, net	**1,100,377**	2,524,067	**676,944**	886,416
General and administrative	**939,925**	977,971	**575,982**	598,713
Amortization	**4,319,716**	4,053,146	**2,156,927**	2,026,681
Foreign exchange (gain) loss	**(30,572)**	(3,339)	**(27,374)**	3,545
	6,329,446	7,551,845	**3,382,479**	3,515,355
Loss before the following	**(6,329,446)**	(7,551,845)	**(3,382,479)**	(3,515,355)
Interest income, net	**96,752**	23,702	**52,296**	9,142
Equity loss in affiliate	**-**	(10,425)	**-**	(10,425)
Loss before income taxes	**(6,232,694)**	(7,538,568)	**(3,330,183)**	(3,516,638)
Recovery of (provision for) income taxes				
Current	**53,918**	(23,400)	**53,918**	(13,400)
Future	**1,311,724**	1,735,583	**702,139**	815,413
Net loss for the period	**(4,867,052)**	(5,826,385)	**(2,574,126)**	(2,714,625)
Deficit, beginning of period	**(21,658,301)**	(10,074,955)	**(23,951,227)**	(13,186,715)
Deficit, end of period	**(26,525,353)**	(15,901,340)	**(26,525,353)**	(15,901,340)
Basic net loss per common and Class B share *[note 4[b][ii]]*	**$(0.06)**	$(0.12)	**$(0.03)**	$(0.05)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six-month period ended December 31, 2003 $	Six-month period ended December 31, 2002 $	Three-month period ended December 31, 2003 $	Three-month period ended December 31, 2002 $
OPERATING ACTIVITIES				
Net loss for the period	**(4,867,052)**	(5,826,385)	**(2,574,126)**	(2,714,625)
Add (deduct) items not involving cash				
Amortization	**4,348,453**	4,061,341	**2,182,385**	2,031,037
Amortization of leasehold inducement	**(1,848)**	(1,848)	**(924)**	(924)
Recovery of income taxes - future	**(1,311,724)**	(1,735,583)	**(702,139)**	(815,413)
Equity loss in affiliate	**-**	10,425	**-**	10,425
	(1,832,171)	(3,492,050)	**(1,094,804)**	(1,489,500)
Net change in non-cash working capital balances related to operations *[note 5]*	**236,446**	24,289	**424,619**	(9,553)
Cash used in operating activities	**(1,595,725)**	(3,467,761)	**(670,185)**	(1,499,053)
INVESTING ACTIVITIES				
Maturity of short-term investments	**-**	400,000	**-**	400,000
Purchase of capital assets	**(6,241)**	(605)	**(2,106)**	-
Acquisition costs on SCT purchase	**-**	(21,819)	**-**	(21,819)
Cash provided by (used in) investing activities	**(6,241)**	377,576	**(2,106)**	378,181
FINANCING ACTIVITIES				
Repayment of obligation under capital leases	**(15,869)**	(12,039)	**(8,771)**	(3,174)
Proceeds from issuance of common shares, net *[note 4[b][i]]*	**474,325**	1,960,947	**-**	1,960,947
Cash provided by (used in) financing activities	**458,456**	1,948,908	**(8,771)**	1,957,773
Net increase (decrease) in cash and cash equivalents during the period	**(1,143,510)**	(1,141,277)	**(681,062)**	836,901
Cash and cash equivalents, beginning of period	**6,857,576**	2,894,277	**6,395,128**	916,099
Cash and cash equivalents, end of period	**5,714,066**	1,753,000	**5,714,066**	1,753,000

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. NATURE OF OPERATIONS

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 novel approaches and therapeutics with the potential for enhancing the quality of life of patients with such debilitating diseases as diabetes, multiple sclerosis and restenosis.

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.

These consolidated financial statements have been prepared using the same accounting principles used in the audited consolidated financial statements for the period ended June 30, 2003.

2. TECHNOLOGY

Technology consists of the following:

	December 31, 2003		
	Cost $	Accumulated amortization $	Net book value $
Acquired on acquisition of Waratah Pharmaceuticals Inc.	**39,799,917**	**15,588,301**	**24,211,616**
Acquired from Biogenesys, Inc.	**137,000**	**57,078**	**79,922**
Acquired on acquisition of Stem Cell Therapeutics Inc.	**3,055,560**	**618,291**	**2,437,269**
	42,992,477	**16,263,670**	**26,728,807**

	June 30, 2003		
	Cost $	Accumulated amortization $	Net book value $
Acquired on acquisition of Waratah Pharmaceuticals Inc.	39,799,917	11,608,309	28,191,608
Acquired from Biogenesys, Inc.	137,000	43,378	93,622
Acquired on acquisition of Stem Cell Therapeutics Inc.	3,055,560	319,850	2,735,710
	42,992,477	11,971,537	31,020,940

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

	$
2004	8,584,266
2005	8,584,266
2006	8,584,266
2007	4,919,962
2008	348,180
	31,020,940

3. OPTION AGREEMENT

In November 2003, the Company signed an agreement granting Novo Nordisk A/S ["Novo Nordisk"] an exclusive option to license the Company's Islet Neogenesis Therapy ["I.N.T.™"]. Under the agreement, Novo Nordisk has provided the Company with $652,400 [US$500,000] for the further development of the I.N.T.™ technology. Following the review of research data from the ongoing development program, which the Company expects to occur in the third quarter of calendar 2004, Novo Nordisk must exercise its exclusive option or the option will expire.

If the option is exercised, Novo Nordisk will execute a licensing agreement with an upfront payment and equity investment [at then market prices] of approximately US$5 million and development milestone payments potentially worth up to an additional US$51.5 million. In addition, the Company will be entitled to receive commercial milestone payments and royalty payments on sales.

The $652,400 received from Novo Nordisk has been recorded as deferred revenue. If the option is exercised, this amount will be taken into revenue over the term of the license agreement. If the option is not exercised, this amount will be taken into revenue when the option expires.

4. SHARE CAPITAL

[a] Authorized

Unlimited common shares

Unlimited Class B shares, which are convertible on a one to one basis into common shares without additional consideration

[b] Issued and outstanding and changes during the period

Common shares	#	$
Balance, June 30, 2003	**72,460,056**	**48,415,433**
Issued pursuant to private placement, net *[i]*	**1,111,111**	**474,325**
Conversion of Class B shares	**1,584,000**	**443,520**
Balance, December 31, 2003	**75,155,167**	**49,333,278**

Class B shares	#	$
Balance, June 30, 2003	**8,129,000**	**2,276,120**
Conversion to common shares	**(1,584,000)**	**(443,520)**
Balance, December 31, 2003	**6,545,000**	**1,832,600**
Total common and Class B shares, December 31, 2003	**81,700,167**	**51,165,878**

[i] On July 24, 2003, the Company sold 1,111,111 common shares to Novo Nordisk at a purchase price of $0.45 per common share through a private placement for a total amount of $500,000. The cash proceeds from the private placement, net of expenses, were $474,325. In addition, the Company also granted Novo Nordisk a non-transferable right to acquire up to an additional 10,101,010 common shares of the Company at $0.495 per common share which right expired on October 1, 2003.

4. SHARE CAPITAL (continued)

[ii] 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, 2003 is 80,918,298 [six-month period ended December 31, 2002 - 47,580,907] and for the three-month period ended December 31, 2003 is 81,098,070 [three-month period ended December 31, 2002 - 50,139,118].

For the six-month period ended December 31, 2003, 642,980 [six-month period ended December 31, 2002 - 1,009,511] and for the three-month period ended December 31, 2003, 602,097 [three-month period ended December 31, 2002 - 1,009,511] contingently returnable common shares were excluded from the basic net loss per common and Class B share calculation.

[c] Share purchase warrants and Agents' Warrants

Share purchase warrants	#	$
Share purchase warrants outstanding, June 30, 2003 and December 31, 2003	**7,245,098**	**859,616**
Agents' Warrants	**#**	**$**
Agents' Warrants outstanding, June 30, 2003 and December 31, 2003	**1,431,800**	**329,314**
Total warrants, June 30, 2003 and December 31, 2003	**8,676,898**	**1,188,930**

The maximum possible cash proceeds to the Company from the exercise of the share purchase warrants and the Agents' Warrants outstanding at December 31, 2003 is $5,139,857.

[d] Stock options

Stock options	#	$
Stock options outstanding, June 30, 2003	**3,830,197**	**814,871**
Stock options issued	**419,000**	**-**
Stock options expired	**(599,166)**	**(170,624)**
Stock options outstanding, December 31, 2003	**3,650,031**	**644,247**

[i] The maximum cash proceeds to the Company from the exercise of the stock options outstanding at December 31, 2003 is $4,097,413.

[ii] Of the stock options that expired, 279,166 were included as part of the consideration for the acquisition of Waratah Pharmaceuticals Inc. Therefore, the consideration associated with these options was reclassified to contributed surplus when they expired.

[iii] The pro forma information below, regarding net loss and basic net loss per common and Class B share, has been determined as if the Company had accounted for stock options granted to employees, officers and directors on or after July 1, 2002 under the fair value based method of accounting for stock-based compensation.

4. SHARE CAPITAL (continued)

	Six-month period ended December 31, 2003 $	Six-month period ended December 31, 2002 $	Three-month period ended December 31, 2003 $	Three-month period ended December 31, 2002 $
Net loss				
As reported	**4,867,052**	5,826,385	**2,574,126**	2,714,625
Pro forma	**4,887,235**	5,833,135	**2,593,559**	2,721,375
Basic net loss per common and Class B share				
As reported	**$0.06**	$0.12	**$0.03**	$0.05
Pro forma	**$0.06**	$0.12	**$0.03**	$0.05

5. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Six-month period ended December 31, 2003 $	Six-month period ended December 31, 2002 $	Three-month period ended December 31, 2003 $	Three-month period ended December 31, 2002 $
Receivables	**54,523**	(24,420)	**7,905**	(1,433)
Investment tax credits receivable	**182,464**	(94,000)	**192,464**	(70,000)
Research inventory	**20,093**	31,223	**9,845**	30,625
Deposits on collaborations	**-**	282,201	**-**	28,118
Prepaid expenses and other assets	**(4,189)**	107,913	**42,609**	61,984
Long-term deposits	**8,374**	(6,561)	**5,759**	1,094
Accounts payable and accrued liabilities	**(555,554)**	(272,067)	**(436,591)**	(59,941)
Deferred revenue	**652,400**	-	**652,400**	-
Provision for facility closure	**(121,665)**	-	**(49,772)**	-
	236,446	24,289	**424,619**	(9,553)
Supplemental cash flow information				
Interest paid	**3,288**	5,176	**329**	1,101
Taxes paid	**26,642**	-	**-**	-

6. RESEARCH COMMITMENTS

As at December 31, 2003, the Company is committed to aggregate expenditures of approximately $171,000 [June 30, 2003 - $115,250] under its collaboration agreements. In addition, at December 31, 2003, the Company is committed to aggregate expenditures of approximately $793,000 [June 30, 2003 - $41,773] for clinical and toxicity studies to be completed during fiscal 2004 and approximately $36,000 [June 30, 2003 - nil] for manufacturing agreements.

7. 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

7. SEGMENTED INFORMATION (continued)

Pharmaceuticals Inc., the Company's operations are conducted in Canada and the United States. Geographic segment information is as follows:

	Canada $	United States $
Net loss (income):		
Six-months ended December 31, 2003	**4,880,701**	**(13,649)**
Six-months ended December 31, 2002	5,262,745	563,640
Three-months ended December 31, 2003	**2,609,928**	**(35,802)**
Three-months ended December 31, 2002	2,533,041	18,584
Amortization of capital assets:		
Six-months ended December 31, 2003	**50,845**	**5,475**
Six-months ended December 31, 2002	28,839	38,813
Three-months ended December 31, 2003	**29,628**	**2,190**
Three-months ended December 31, 2002	14,677	18,515
Interest income (expense):		
Six-months ended December 31, 2003	**97,096**	**(344)**
Six-months ended December 31, 2002	27,959	(4,257)
Three-months ended December 31, 2003	**52,296**	**-**
Three-months ended December 31, 2002	11,030	(1,888)
Recovery of (provision for) income taxes - current:		
Six-months ended December 31, 2003	**-**	**53,918**
Six-months ended December 31, 2002	-	(23,400)
Three-months ended December 31, 2003	**-**	**53,918**
Three-months ended December 31, 2002	-	(13,400)
Recovery of (provision for) income taxes - future:		
Six-months ended December 31, 2003	**1,377,974**	**(66,250)**
Six-months ended December 31, 2002	1,735,583	-
Three-months ended December 31, 2003	**732,454**	**(30,315)**
Three-months ended December 31, 2002	815,413	-
Capital assets:		
December 31, 2003	**477,836**	**-**
June 30, 2003	403,404	65,706

8. GUARANTEES

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

9. SUBSEQUENT EVENT

On February 24, 2004, under the terms of an underwriters agreement, the Company sold 23,076,923 common shares at a purchase price of $0.65 per common share, through a private placement, for total gross proceeds of $15 million. As consideration in connection with the financing, the Company paid the underwriters a cash fee of $1.05 million and granted the underwriters 1,384,615 non-transferable warrants. Each warrant entitles the holder to purchase one common share of the Company at a purchase price of $1.00. These warrants expire on February 24, 2006 and the fair value of these warrants will be recorded as an additional expense for the private placement.

Stock symbol: **TTH**
Exchange: **TSX Venture**
Fiscal year end: **JUNE 30**

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