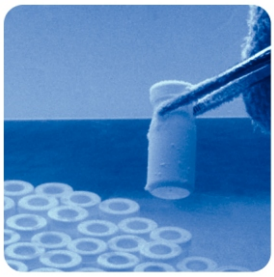
Third Quarter Results

Transition Therapeutics Inc.

2002



To Our Shareholders

This past year has been one of significant achievement for Transition. The expertise of our scientific and management team has built an infrastructure that will be key in advancing our product pipeline and building important partnerships. Since our public offering last year, we have completed a merger with Waratah Pharmaceuticals Inc. ("Waratah"), and after only three years of research, we are taking two of our lead products into clinical development.

As a result, Transition today represents an enhanced investment opportunity that offers long-term growth prospects and potential for enhancing the quality of life and survivability of patients with debilitating diseases, including diabetes, multiple sclerosis and restenosis.

The Waratah Merger

The merger with Waratah has strengthened our scientific team, and decreased shareholder risk through the addition of another strong technology - Islet Neogenesis Therapy (I.N.T.™). I.N.T. is a short course of injections of two well-defined human growth factors that stimulate the body to regenerate insulin-producing cells that are damaged or destroyed in those with insulin-dependent diabetes. Transition believes that insulin independence may be achieved with periodic treatments of I.N.T., which is far less invasive than the current solution of transplant surgery.

I.N.T. 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 has further increased the Company's probability of clinical success and, ultimately, the achievement of profitable operations.

Research and Development

In addition to I.N.T. discussed above, the Company is on schedule to file a Clinical Trial Application ("CTA"), formally an Investigational New Drug application ("IND") with Health Canada for its interferon enhancing therapy by the end of May 2002 and to begin Phase I studies in mid-2002. In pre-clinical studies, Transition has shown that its interferon enhancing therapy is 2 to 5 times more effective than interferon alone. Interferon is the existing gold standard in treating multiple sclerosis. Interferon is also used to treat Hepatitis C and cancer. Transition is actively testing to see the effectiveness of its enhancing therapy on these diseases as well.

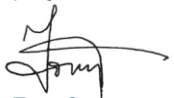
Financial Highlights

At March 31, 2002, Transition had working capital of $7.6 million, including cash and short-term investments of $7.3 million, compared to working capital of $7.9 million at June 30, 2001.

The net loss for nine months ended March 31, 2002 increased to $3,921,609 or ($0.13) per share from $1,159,934 or ($0.07) per share for the same period in fiscal 2001. Research and development expenses increased to $2,141,501 for the nine months ended March 31, 2002 from $629,912 for the nine months ended March 31, 2001. The primary reasons for the increase in research and development expenditures included: the acquisition of Waratah which added a research facility and ten research and development employees, 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; and an increase in patent costs to broaden the Company's patent position. General and administrative expenses were $1,067,921 for the nine months ended March 31, 2002 compared to $624,424 for the same period in fiscal 2001. The increase in general and administrative expenses was the result of three new administrative employees and infrastructure gained through the acquisition of Waratah and incurring expenditures to enhance Company awareness and comply with regulatory requirements.

We are committed to building shareholder value by moving our products through clinical trials as well as exploring strategic partnerships and alliances that create greater opportunities and additional value.

We appreciate your dedication to Transition and look forward to keeping you informed of our future progress.



Tony Cruz
Chairman and CEO

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 March 31, 2002 of $6,205,201. 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.

Effective January 15, 2002, 3974863 Canada Inc. ("Newco"), a wholly-owned subsidiary of the Company amalgamated with Waratah Pharmaceuticals Inc. ("Waratah"), pursuant to an arrangement agreement, to form a newly amalgamated entity also known as Waratah Pharmaceuticals Inc. ("New Waratah"). Waratah's principal business activity was to develop and commercialize products from a patented technology, termed Islet Neogenesis Therapy ("I.N.T.™"), for the treatment of diabetes. 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 New Waratah 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 was accounted for using the purchase method with the Company identified as the acquirer. Due to the limited trading volume of the Company's shares, the Company considered many factors to determine the fair market value of the shares issued to Waratah shareholders. These factors included the trading prices of the Company's shares for a reasonable period prior to the announcement of the transaction, the historical trading prices of the Company's shares, the recent financing completed by the Company, and the independent valuation report completed as part of the transaction. Management has concluded that the value ascribed to the shares is reasonable. The three months ended March 31, 2002, is the first quarter where the results of New Waratah, a wholly-owned subsidiary of the Company, are consolidated with the Company's results.

Results of operations

For the three months ended March 31, 2002, the Company recorded a net loss of $2,764,870 ($0.07 per common and Class B share) compared to a net loss of $569,601 ($0.03 per common and Class B share) for the three months ended March 31, 2001. For the nine months ended March 31, 2002, the Company recorded a net loss of $3,921,609 ($0.13 per common and Class B share) compared to a net loss of $1,159,934 ($0.07 per common share and Class B share) for the nine months ended March 31, 2001. The increase in the loss from fiscal 2001 is primarily due to the addition of the New Waratah operations and the amortization of the technology acquired through the acquisition of Waratah.

Revenue

Interest income for the three months ended March 31, 2002, was $37,882 as compared to $77,281 for the three months ended March 31, 2001. Interest income decreased during the three month period due to the effect of a decrease in interest rates and a decrease in cash and cash equivalents and short-term investments of $1,223,205 between March 31, 2001 and March 31, 2002. Interest income for the nine months ended March 31, 2002 was $186,033 as compared to $127,593 for the

nine months ended March 31, 2001. The increase in interest income resulted from an increase in the average cash and cash equivalents and short-term investments balance of $3,027,700 between the nine months ended March 31, 2002 and the same period in fiscal 2001. The primary reason for this increase was the completion of the Company's initial public offering in February 2001, which raised net proceeds of $4,486,305. In the absence of additional financing, interest income is expected to decline 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 $1,401,266 for the three months ended March 31, 2002 from $328,215 for the same period in fiscal 2001. Research and development expenses increased to $2,141,501 for the nine months ended March 31, 2002 from $629,912 for the same period in fiscal 2001. The primary reasons for the increase in expenditures included: the acquisition of Waratah which added a research facility and ten research and development employees, 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; and an increase in patent costs to broaden the Company's patent position. Research and development expenses are expected to increase significantly during the fourth quarter of fiscal 2002 as a result of the increased expenditures which will result from the Company preparing to commence Phase I clinical trials for its MS interferon combination therapy and its Islet Neogenesis Therapy.

General and administrative expenses

General and administrative expenses increased to $526,376 for the three months ended March 31, 2002 from $300,962 for the same period in fiscal 2001. General and administrative expenses increased to $1,067,921 for the nine months ended March 31, 2002 from $624,424 for the same period in fiscal 2001. The primary reasons for the increase included: three new administrative employees and increased infrastructure gained through the acquisition of Waratah; and incurring expenditures to enhance Company awareness and comply with regulatory requirements. The Company does not anticipate a significant increase in general and administrative expenses for the fourth quarter of fiscal 2002 as compared to the third quarter of fiscal 2002.

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 March 31, 2002, the Company has 4,467,164 share purchase warrants outstanding, and if exercised would generate maximum cash proceeds to the Company of $3,966,089. If not exercised, 422,500 of these warrants will expire on August 28, 2002 and 4,044,664 of these warrants will expire on September 19, 2002.

On January 15, 2002, the Company issued 21,267,743 common shares, 4,044,664 share purchase warrants and 2,121,242 stock options related to its acquisition of Waratah.

As at May 15, 2002, there has been no change since March 31, 2002 in the number or principle amount of the Company's common and Class B shares outstanding or in the number or principle amount of the options and warrants outstanding.

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 equivalents plus short-term investments and the Company's working

capital position were $7,286,313 and $7,573,166, respectively at March 31, 2002 down slightly from June 30, 2001 balances of $7,604,138 and $7,880,155, respectively. The slight decrease resulted from the net impact of the acquisition of cash and cash equivalents plus short-term investments totaling $3,975,688 through the Waratah transaction and the net loss during the nine months ended March 31, 2002.

Capital expenditures

During the three months ended March 31, 2002, the Company's capital expenditures were $701,135, as compared to $122,642 for three months ended March 31, 2001. During the nine months ended March 31, 2002, the Company's capital expenditures were $726,735, as compared to $126,202 for nine months ended March 31, 2001. During the nine-month period ended March 31, 2002, $693,281 of these capital assets were acquired through the acquisition of Waratah and the remaining expenditures were office equipment and furniture and computer system upgrades to support the increased staffing levels. The Company does not anticipate any significant capital expenditures during the fourth quarter of fiscal 2002.

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

The Company intends to file a Clinical Trial Application ("CTA"), formerly an Investigation New Drug application ("IND") with Health Canada for its interferon enhancing therapy by the end of May 2002 and to commence a Phase I clinical trial for this therapy in mid 2002. In addition, the Company expects to commence a Phase I clinical trial in the United Kingdom for I.N.T.™ by September 2002. The 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 March 31, 2002 $	Audited June 30, 2001 $
ASSETS		
Current		
Cash and cash equivalents	5,300,813	4,604,138
Short-term investments	1,985,500	3,000,000
Interest receivable	15,696	122,436
GST receivable	37,735	117,969
Accrued accounts receivable	15,965	12,000
Investment tax credits receivable	199,619	131,400
Research inventory [*note 4*]	775,343	101,719
Deposits on collaborations	127,420	102,874
Prepaid expenses and other assets	713,612	115,662
Total current assets	9,171,703	8,308,198
Capital assets, net [*note 5*]	957,763	312,989
Technology (net of amortization of $1,707,396 [*notes 3 and 11[b]*]	39,187,914	-
	49,317,380	8,621,187
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,568,980	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	1,598,537	428,043
Leasehold inducement	26,198	28,970
Obligation under capital leases	53,289	76,167
Future tax liability [*note 3*]	9,954,612	-
Total liabilities	11,632,636	533,180
Commitments [*note 11*]		
Shareholders' equity		
Common shares [*notes 6 and 7*]	37,210,654	6,968,948
Class B shares	3,402,651	3,402,651
Stock options [*note 3*]	890,288	-
Warrants [*note 3*]	2,386,352	-
Deficit	(6,205,201)	(2,283,592)
Total shareholders' equity	37,684,744	8,088,007
	49,317,380	8,621,187

See accompanying notes

Consolidated Statements of Loss and Deficit

Unaudited

	Nine-month period ended March 31, 2002 $	Nine-month period ended March 31, 2001 $	Three-month period ended March 31, 2002 $	Three-month period ended March 31, 2001 $	Cumulative since inception on July 6, 1998 $
REVENUE					
Product	-	-	-	-	58,021
EXPENSES					
Research and development, net [*note 8*]	2,141,501	629,912	1,401,266	328,215	3,373,065
General and administrative	1,067,921	624,424	526,376	300,962	2,370,806
Amortization	1,765,365	33,191	1,742,255	17,705	1,806,034
Foreign exchange	(20,584)	-	(20,584)	-	(20,584)
	4,954,203	1,287,527	3,649,313	646,882	7,529,321
Loss before the undernoted	(4,954,203)	(1,287,527)	(3,649,313)	(646,882)	(7,471,300)
Interest income	186,033	127,593	37,882	77,281	419,538
Loss before income taxes	(4,768,170)	(1,159,934)	(3,611,431)	(569,601)	(7,051,762)
Income taxes	(12,000)	-	(12,000)	-	(12,000)
Recovery of income taxes - future	858,561	-	858,561	-	858,561
Net loss for the period	(3,921,609)	(1,159,934)	(2,764,870)	(569,601)	(6,205,201)
Deficit, beginning of period	(2,283,592)	(529,808)	(3,440,331)	(1,120,141)	-
Deficit, end of period	(6,205,201)	(1,689,742)	(6,205,201)	(1,689,742)	(6,205,201)
Basic net loss per common and Class B share [*note 2*]	**$(0.13)**	**$(0.07)**	**$(0.07)**	**$(0.03)**	

See accompanying notes

Consolidated Statements of Cash Flow

Unaudited

	Nine-month period ended March 31, 2002 $	Nine-month period ended March 31, 2001 $	Three-month period ended March 31, 2002 $	Three-month period ended March 31, 2001 $	Cumulative since inception on July 6, 1998 $
OPERATING ACTIVITIES					
Net loss for the period	(3,921,609)	(1,159,934)	(2,764,870)	(569,601)	(6,205,201)
Add (deduct) items not involving cash					
Amortization	1,789,356	33,191	1,753,717	17,705	1,841,410
Amortization of leasehold inducement	(2,772)	(2,772)	(924)	(924)	(7,084)
Write-off of accrued accounts receivable	-	64,528	-	64,528	64,528
Recovery of income taxes - future	(858,561)	-	(858,561)	-	(858,561)
	(2,993,586)	(1,064,987)	(1,870,638)	(488,292)	(5,164,908)
Net change in non-cash working capital balances related to operations [*note 9*]	(771,486)	50,343	(961,019)	3,787	(1,038,940)
Cash used in operating activities	(3,765,072)	(1,014,644)	(2,831,657)	(484,505)	(6,203,848)
INVESTING ACTIVITIES					
Purchase of short-term investments	-	(4,160,000)	-	-	(4,240,000)
Maturity of short-term investments	3,000,000	-	-	-	4,240,000
Purchase of capital assets	(33,454)	(126,202)	(7,854)	(122,642)	(281,766)
Decrease in deferred acquisition costs	-	-	526,532	-	-
Cash acquired on Waratah purchase net of acquisition costs	1,400,891	-	1,400,891	-	1,400,891
Cash provided by (used in) investing activities	4,367,437	(4,286,202)	1,919,569	(122,642)	1,119,125
FINANCING ACTIVITIES					
Decrease in advances from related parties	-	(65,629)	-	(60,000)	-
Repayment of obligation under capital leases	(22,878)	(10,873)	(8,371)	(3,742)	(38,173)
Decrease in prepaid financing costs	-	-	-	105,003	-
Proceeds from issuance of special warrants, net	-	4,914,941	-	-	4,914,941
Proceeds from issuance of common shares, net	117,188	4,486,392	-	4,486,305	5,508,768
Cash provided by (used in) financing activities	94,310	9,324,831	(8,371)	4,527,566	10,385,536
Net increase (decrease) in cash and cash equivalents during the period	696,675	4,023,985	(920,459)	3,920,419	5,300,813
Cash and cash equivalents, beginning of period	4,604,138	285,533	6,221,272	389,099	-
Cash and cash equivalents, end of period	5,300,813	4,309,518	5,300,813	4,309,518	5,300,813

See accompanying notes

Notes to Consolidated Financial Statements

Unaudited

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 Waratah Pharmaceuticals Inc. ("Waratah"), a wholly-owned subsidiary. Effective January 15, 2002, 3974863 Canada Inc. ("Newco"), a wholly-owned subsidiary of the Company amalgamated with Waratah, pursuant to an arrangement agreement, to form a newly amalgamated entity also known as Waratah Pharmaceuticals Inc. Waratah's principal business activity was to develop and commercialize products from a patented technology, termed Islet Neogenesis Therapy ("I.N.T.™"), for the treatment of diabetes. These consolidated financial statements also include the accounts of Transition Therapeutics Leaseholds Inc., a wholly-owned subsidiary, incorporated on March 10, 2000 under the *Business Corporation Act* (Ontario). All material intercompany transactions and balances have been eliminated on consolidation.

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 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 nine-month period ended March 31, 2002 is 29,324,288 (nine-month period ended March 31, 2001 - 16,905,318) and for the three-month period ended March 31, 2002 is 41,155,276 (three-month period ended March 31, 2001 - 20,547,321).

For the nine-month period ended March 31, 2002, 1,172,901 (nine-month period ended March 31, 2001 - 1,204,901) and for the three-month period ended March 31, 2002, 1,172,901 (three-month period ended March 31, 2001 - 1,204,901) contingently returnable common shares were excluded from the basic loss per common and Class B share calculation.

2. CHANGE IN ACCOUNTING POLICIES (Continued)

Technology

The cost of intangibles that are purchased from others for a particular research and development project, are deferred and amortized on a straight-line basis over their estimated useful life, which is five years.

The Company reviews its technology for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable by comparing the carrying amount to the related estimated discounted future net cash flows.

Foreign exchange translation

Foreign subsidiary

The Company's foreign subsidiary is considered to be an integrated foreign operation and its accounts have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are remeasured at the exchange rates in effect at the consolidated balance sheet date. Non-monetary assets and liabilities are remeasured at historical rates. Revenues and expenses are remeasured at the average rate for the period. Gains and losses resulting from remeasurement are included in the consolidated statements of loss and deficit.

Foreign currency transactions

Transactions undertaken in foreign currencies are translated into Canadian dollars at approximate exchange rates prevailing at the time the transactions occurred. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates. Non-monetary assets are translated at historical exchange rates. Exchange gains and losses are included in the consolidated statements of loss and deficit.

3. ACQUISITION

On January 15, 2002, Waratah and Newco 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.” The 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.

The acquisition was accounted for using the purchase method of accounting with the Company identified as the acquirer. Total consideration, including acquisition costs, was allocated to the estimated fair values on the date of acquisition as follows:

	$
Assets acquired	
Current assets (including cash and cash equivalents of $1,990,188)	4,822,485
Capital assets	693,281
Technology	40,758,310
	46,274,076
Less liabilities assumed	
Current assets (including severance accruals of $548,277)	1,607,448
Future tax liability	10,813,173
	12,420,621
Net assets acquired	33,853,455

3. ACQUISITION (Continued)

	$
Consideration given	
Common shares	29,987,518
Share purchase warrants	2,386,352
Stock options	890,288
Acquisition costs	589,297
	33,853,455

Due to the limited trading volume of the Company's shares, the Company considered many factors to determine the fair market value of the common shares issued for the acquisition of Waratah. These factors included the trading prices of the Company's shares for a reasonable period prior to the announcement of the transaction, the historical trading prices of the Company's shares, the recent financing completed by the Company, and the independent valuation report completed as part of the transaction. Management has concluded that the value ascribed above is reasonable.

4. RESEARCH INVENTORY

The research inventory balance of $775,343 [June 30, 2001 - $101,719] represents material that will be used in future studies and clinical trials. The research inventory, which is recorded at cost, will be recorded as research and development expense in the period it is used.

5. CAPITAL ASSETS

Capital assets consists of the following:

	March 31, 2002		
	Cost $	Accumulated amortization $	Net book value $
Computer equipment	167,683	30,603	137,080
Office equipment and furniture	223,369	39,502	183,867
Laboratory equipment	578,750	46,125	532,625
Leasehold improvements	116,168	11,977	104,191
	1,085,970	128,207	957,763

Amortization relating to laboratory equipment of $15,370 is included in research and development expenses.

6. 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.

6. SHARE CAPITAL (Continued)

[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
Issued for purchase of technology	100,000	137,000
Issued on acquisition of Waratah [*note 3*]	21,267,743	29,987,518
Balance, March 31, 2002	41,436,493	37,210,654

Class B shares	#	$
Balance, June 30, 2001 and March 31, 2002	4,500,000	3,402,651
Total common and Class B shares, March 31, 2002	45,936,493	40,613,305

[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 issued on acquisition of Waratah [*note 3*]	4,044,664
Share purchase warrants expired	(3,156,250)
Share purchase warrants outstanding, March 31, 2002	**4,467,164**

The maximum possible cash proceeds to the Company from the exercise of the share purchase warrants presently outstanding are $3,966,089.

On January 15, 2002, as part of the acquisition of Waratah, the Company issued 4,853,616 share purchase warrants. Each share purchase warrant entitles the holder to acquire 0.83333 common shares of the Company at $0.85. Therefore the total common shares that can be acquired from the newly issued share purchased warrants is 4,044,664. These share purchase warrants expire on September 19, 2002.

On March 15, 2002, 3,156,250 of the share purchase warrants issued in connection with the private placement on October 20, 2000 expired.

Stock options	#
Stock options outstanding, June 30, 2001	1,435,000
Stock options issued	300,000
Stock options cancelled	(7,296)
Stock options issued on acquisition of Waratah [*note 3*]	2,121,242
Stock options outstanding, March 31, 2002	**3,848,946**

The maximum possible cash proceeds to the Company from the exercise of the stock options presently outstanding are $4,438,220.

7. STOCK-BASED COMPENSATION PLAN

A summary of options outstanding as at March 31, 2002 under the Company's Stock Option Plan is presented below.

	Outstanding			Exercisable		
Range of exercise prices $	Number of options #	Weighted-average remaining Contractual life (years)	Weighted-average remaining Contractual life (years)	Number of options #	Weighted-average remaining Contractual life (years)	Weighted-average remaining Contractual life (years)
0.80-1.14	2,153,530	3.6	0.96	1,477,041	3.5	0.98
1.25-1.67	995,000	4.0	1.32	538,509	4.0	1.28
1.90-2.70	666,249	4.3	2.17	559,997	4.4	2.15
2.92-3.30	34,167	3.6	3.20	14,167	3.5	3.26
	3,848,946			2,589,714		

On March 18, 2002 the Board of Directors of the Company signed a resolution to amend the maximum stock options that can be issued under the Company's stock option plan to 4,143,648.

8. 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 nine-month period ended March 31, 2002	553,678
Cumulative research and development expenses	**766,241**

Treatment of Diabetes and Obesity

	$
Cumulative research and development expenses as at June 30, 2001	148,311
Research and development expenses for the nine-month period ended March 31, 2002	1,107,548
Cumulative research and development expenses	**1,255,859**

Treatment of Restenosis

	$
Cumulative research and development expenses as at June 30, 2001	116,056
Research and development expenses for the nine-month period ended March 31, 2002	104,371
Cumulative research and development expenses	**220,427**

Treatment of Scarring/Wound healing

	$
Cumulative research and development expenses as at June 30, 2001	452,354
Research and development expenses for the nine-month period ended March 31, 2002	77,379
Cumulative research and development expenses	**529,733**

8. RESEARCH AND DEVELOPMENT PROJECTS (Continued)

Discovery and Manufacturing program

	$
Cumulative research and development expenses as at June 30, 2001	244,448
Research and development expenses for the nine-month period ended March 31, 2002	298,525
Cumulative research and development expenses	**542,973**

9. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Nine-month period ended March 31, 2002 $	Nine-month period ended March 31, 2001 $	Three-month period ended March 31, 2002 $	Three-month period ended March 31, 2001 $
Share subscriptions receivable	-	30,503	-	-
Interest receivable	109,640	(106,011)	5,817	(60,836)
GST receivable	121,598	(77,241)	47,565	(45,762)
Accrued accounts receivable	(3,965)	39,568	(3,965)	63,859
Investment tax credits receivable	(68,219)	-	(24,000)	-
Research inventory	(401,248)	-	(381,411)	2,144
Deposits on collaborations	(24,546)	(74,429)	71,810	(53,037)
Prepaid expenses and other assets	(67,793)	(146,341)	(2,006)	(77,969)
Accounts payable and accrued liabilities	(413,103)	384,294	(650,979)	175,388
Income taxes payable	(23,850)	-	(23,850)	-
	(771,486)	50,343	(961,019)	3,787
Supplemental cash flow information				
Interest paid	7,005	27,325	4,997	18,383
Taxes paid	23,850	-	23,850	-

10. NON-CASH TRANSACTIONS

On December 5, 2001, the Company issued 100,000 common shares to purchase technology [*note 11(b)*].

11. COMMITMENTS

[a] As at March 31, 2002, the Company is committed to aggregate expenditure of $159,850 [June 30, 2001 - $263,745] under its collaboration agreements. In addition, at March 31, 2002, the Company is committed to aggregate expenditures of approximately $1.7 million [June 30, 2001 - nil] for clinical and toxicity studies to be completed during fiscal 2002 and 2003.

[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 TSX Venture Exchange 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

11. COMMITMENTS (Continued)

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.

[c] Through the acquisition of Waratah, the Company acquired the commitments for the following license agreements:

[i] General Hospital Corporation:

The Company owns 50% of certain patent rights issued in connection with I.N.T. technology for the treatment of juvenile diabetes and has a license agreement with General Hospital Corporation ("GHC") whereby GHC assigned the Company an exclusive worldwide license for the remaining 50% of the aforementioned patent rights. Under the license agreement, the Company is committed to making royalty payments of 1.5% on the net sales of EGF. This royalty rate can be reduced to 0.75% by the Company through the payment of a buy-back option ranging from US$250,000 to US$1.25 million depending on the stage of the development of the I.N.T. product at the time of the buy-back. In addition, the Company is committed to make payments ranging from 5-10% of non-royalty sublicense fees and milestone payments received by the Company. The agreement remains in force until the expiration of the last to expire patent.

[ii] Research Corporation Technologies:

The Company has a license agreement with Research Corporation Technologies ("RCT"), a Company based in Arizona, for the use of RCT's patented protein expression system for the production of the Company's therapeutics proteins. Under the agreement, the Company will pay RCT royalties of 1.5% on net sales, including minimum annual royalties of US$30,000 in 2002 and thereafter for the term of the agreement.

[iii] Viral Therapeutics, Inc.:

The Company has a development agreement with Viral Therapeutics. Inc. of Ithaca, NY ("Viral") which specializes in the strain development, process development, and scale up for recombinant human protein production. Pursuant to the terms of the agreement, Viral also granted the Company an exclusive worldwide license to use Viral's EGF production strain. The agreement provides that the Company will make the following payments upon the achievement of milestones under the agreement: (i) US$50,000 upon initiation of patient enrollment in the first phase III clinical trial in North America of the EGF; and (ii) US$80,000 upon the filing of an NDA with the FDA for the EGF or within six months of the submission of Phase III clinical trial results for the EGF to a regulatory body, whichever shall first occur. Furthermore, the Company has agreed to pay a fee of 5% of sublicensing revenues for EGF and a royalty which may amount to 1% of net sales revenues received by it from the sale of EGF. The agreement also includes a buy-back clause enabling the Company to buy back the royalty stream for amounts varying between US$350,000 and US$2,000,000 depending on the various stages of development.

[d] The Company entered into an agreement with a research institution for the production of research inventory in the amount of approximately US$625,000, of which US$175,000 remains to be disbursed by the Company for items that have not yet been received.

11. COMMITMENTS (Continued)

[e] The Company leases various premises under operating leases expiring at various dates to January 6, 2006 with certain options to renew. Future minimum annual lease payments under these operating leases in aggregate and over the next five years at March 31, 2002, are as follows:

	$
2002	104,099
2003	314,199
2004	309,970
2005	306,800
2006	275,100
Thereafter	22,925
	1,333,093

During the nine months ended March 31, 2002, the rental expense for the various premises under operating leases was $151,684 [June 30, 2001 - $52,322].

12. 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:		
Nine-months ended March 31, 2002	3,314,966	606,643
Three-months ended March 31, 2002	2,158,227	606,643
Amortization of capital assets:		
Nine-months ended March 31, 2002	35,434	46,527
Three-months ended March 31, 2002	12,324	46,527
Interest income:		
Nine-months ended March 31, 2002	186,033	-
Three-months ended March 31, 2002	37,882	-
Income taxes:		
Nine-months ended March 31, 2002	-	12,000
Three-months ended March 31, 2002	-	12,000
Recovery of income taxes - future:		
Nine-months ended March 31, 2002	858,561	-
Three-months ended March 31, 2002	858,561	-
Capital assets:		
March 31, 2002	294,623	663,140
June 30, 2001	312,989	-

13. 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.

Stock Symbol

TTH

Exchange

TSX Venture Exchange

Fiscal Year End

June 30

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