Transition therapeutics inc.

Third Quarter Results
2003

We Believe in...

TO OUR SHAREHOLDERS

During the third quarter of fiscal 2003, Transition (the "Company") has remained focused on advancing our products through the clinic, securing additional financing and acquiring synergistic technology. It is with pleasure that I report on Transition's significant achievements during the third quarter of fiscal 2003.

The quarter was highlighted by:

- Completion of Phase I human clinical trials for our two lead products: Islet Neogenesis Therapy ("I.N.T.™") for diabetes and Interferon Enhancing Therapy for multiple sclerosis;
- Completion of the acquisition of the remaining 54% of Stem Cell Therapeutics Inc. ("SCT");
- Further advancement in the validation of our restenosis products in collaboration with Reddy US Therapeutics Inc.;
- The filing of additional patents; and
- Subsequent to the quarter end, the completion of a private placement for gross proceeds of $664,000.

During the quarter, Transition completed enrollment and the clinical phase for its Phase I trial of I.N.T. The trial enrolled 28 healthy volunteers for evaluation of safety, tolerability, and pharmacokinetic profile of acute escalating doses of I.N.T. Preliminary reports have indicated that all subjects completed the escalation to the maximum exposed doses and no serious or unexpected adverse events were observed. In addition, the Company also completed enrollment and dosing for its Phase I human clinical trial of its interferon enhancer ("EMZ701"). Twenty healthy volunteers were enrolled in the study to evaluate the safety and tolerability of EMZ701. All of the preliminary safety data collected indicates that treatment was well tolerated with no safety concerns raised and that no significant adverse events were observed. Final clinical findings are expected for both clinical trials by the end of July 2003.

On January 31, 2003, Transition acquired the remaining outstanding equity securities of SCT in consideration for 2,776,191 common shares of the Company. This resulted in Transition owning 100% of SCT, a privately held company that is investigating regenerative therapies for stroke and Parkinson's disease. 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.

In addition, in collaboration with Reddy US Therapeutics Inc., Transition has completed initial validation of compounds for use in restenosis and await the final reports for these studies.

In terms of securing additional financing, Transition completed a private placement on May 23, 2003 for gross proceeds of $664,000 through the issuance of 2,075,000 common shares at a price of $0.32 per share. These funds, in addition to the $2 million raised on November 27, 2002, will be used to advance Transition's clinical development programs.

TO OUR SHAREHOLDERS

Advancing Our Products

Transition continues to be committed to advancing its products through clinical development. We have 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. The preliminary results of both our clinical trials have been positive. Based on the final clinical findings, Transition may extend its Phase I human clinical trial for I.N.T. to include dosing of the combination product.

Liquidity

Transition has incurred losses of $7,791,363 in fiscal 2002 and $1,753,784 in fiscal 2001. At March 31, 2003, cash and short-term investments were $1.7 million and Transition had working capital of $1.8 million, compared to working capital of $4.3 million at June 30, 2002. With the completion of the private placement on May 23, 2003, the Company has adequate financing for anticipated expenditures until the end of October 2003.

Outlook

We are focused on securing adequate financing through public or private placements, corporate collaborations or partnership agreements to support two years of anticipated expenditures. With adequate funding levels, our intention is to commence Phase II human clinical trials for our Interferon Enhancing Therapy and Islet Neogenesis Therapy by the end of calendar 2003.

On behalf of the Board of Directors, I would like to thank you for your dedication to Transition and I look forward to keeping you informed of our progress on our clinical and financing milestones.

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 March 31, 2003 unaudited 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 March 31, 2003 of $18,922,321. 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 its 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. Dosing for this trial was completed as expected by April 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. 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. Of the common shares issued 33,334 common shares were issued to the Company's Chairman and Chief Executive Officer ("CEO"). At March 31, 2003, the Company owns 100% of SCT and commencing January 31, 2003 the financial results of SCT have been consolidated with the financial results of the Company. This transaction was accounted for as a step purchase, with the Company identified as the acquirer. SCT is a privately held company that is investigating regenerative therapies for stroke and Parkinson's disease.

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. 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. 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.

On May 23, 2003, the Company completed a private placement which raised gross proceeds of $664,000 through the issuance of 2,075,000 common shares at a price of $0.32 per share. The Company received $128,000 from Dr. Tony Cruz, Chairman and CEO, and the remaining financing from other investors. As consideration in connection with the private placement, the Company granted a dealer, a company owned by a director of the Company, a cash commission of $5,600 and share purchase warrants entitling the dealer to acquire 25,000 common shares at a purchase price of $0.32 per share. These warrants expire on May 23, 2005.

MANAGEMENT'S DISCUSSION & ANALYSIS

Overview (continued)

The Company's cash and cash equivalents plus short-term investments was $1,744,627 at March 31, 2003 and the net working capital position was $1,803,580. With the completion of the private placement on May 23, 2003, the Company has adequate financing for anticipated expenditures until the end of October 2003. 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 March 31, 2003, the Company recorded a net loss of $3,020,981 ($0.05 per common and Class B share) compared to a net loss of $2,764,870 ($0.07 per common and Class B share) for the three-month period ended March 31, 2002. For the nine months ended March 31, 2003, the Company recorded a net loss of $8,847,366 ($0.17 per common and Class B share) compared to a net loss of $3,921,609 ($0.13 per common and Class B share) for the nine months ended March 31, 2002. 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: I.N.T. and Interferon Enhancing Therapy, accounting for the Company's investment in SCT, additional accrual for lease exit costs for the closure of the Waratah Pharmaceuticals Inc. ("Waratah") facility in Woburn, MA, (the "Woburn Facility"), 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 March 31, 2003, was $6,476 as compared to $37,882 for the three-month period ended March 31, 2002. Interest income for the nine months ended March 31, 2003 was $30,178 as compared to $186,033 for the nine months ended March 31, 2002. The decrease in interest income resulted from a decrease in the cash and cash equivalents and short-term investments balance of $5,541,686 between the period ended March 31, 2003 and the period ended March 31, 2002.

Research and development, net

Research and development expenses decreased to $595,691 for the three-month period ended March 31, 2003 from $1,401,266 for the same period in 2002. Research and development expenses increased to $3,119,758 for the nine months ended March 31, 2003 from $2,141,501 for the same period in fiscal 2002. The decrease in expenditures for the three months ended is a result of management's decision to close the Woburn Facility. The primary reasons for the increase in expenditures for the nine months ended include: the acquisition of Waratah which added research and development costs as well as clinical trial costs for I.N.T. technology, and expenses relating to the Company's Phase I clinical trial for its MS Interferon Enhancing Therapy. The Company does not anticipate a significant increase in research and development expenses in the fourth quarter of fiscal 2003.

General and administrative expenses

General and administrative expenses decreased to $395,724 for the three-month period ended March 31, 2003 from $526,376 for the three-month period ended March 31, 2002. The

General and administrative expenses (continued)

decrease in expenditures for the three months ended is a result of management's decision to close the Woburn Facility. General and administrative expenses increased to $1,152,618 for the nine-month period ended March 31, 2003 from $1,067,921 for the same period in fiscal 2002. The primary reasons for the increase include: an increase of operating expenses as a result of the acquisition of Waratah and SCT, and an increase in corporate governance. The Company does not anticipate a significant increase in general and administrative expenses for the fourth quarter of fiscal 2003.

Facility Closure

Facility closure expenses were $661,914 for the nine-month period ended March 31, 2003 and $440,837 for the three-month period ended March 31, 2003. In connection with the acquisition of Waratah, the Company consolidated the management team and determined that it would close the Woburn Facility. During the second and third quarter of fiscal 2003, as a result of unfavourable real estate market conditions, the Company has determined that the original estimated lease exit costs for the Woburn Facility are no longer adequate. As a result, the Company has recorded a further provision for lease exit costs which has been expensed as facility closure on the statements of loss and deficit.

Liquidity and capital resources

At March 31, 2003 the Company's cash and cash equivalents plus short-term investments was $1,744,627 and the Company's net working capital position was $1,803,580. These positions were down significantly from June 30, 2002 balances of $4,411,002 for cash and cash equivalents plus short-term investments and $4,325,086 for the net working capital position. The decreases resulted primarily from the expenditures on research and development activities and operating expenses. With the completion of the private placement on May 23, 2003, the Company has adequate financing for anticipated expenditures until the end of October 2003.

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 March 31, 2003, the Company did not have any capital expenditures, as compared to $7,854 for the three months ended March 31, 2002. During the nine months ended March 31, 2003, the Company's capital expenditures were $605 as compared to $33,454 for the nine months ended March 31, 2002. The Company does not anticipate any significant capital expenditures during the last quarter of fiscal 2003.

MANAGEMENT'S DISCUSSION & ANALYSIS

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 continues to be focused on driving shareholder value by advancing its products through clinical trials. With adequate funding levels, the Company's intention is to commence Phase II clinical trials for our I.N.T. and interferon enhancing therapy by the end of calendar 2003.

The Company is also focused on securing adequate financing through public or private placements, corporate collaborations or partnership agreements to support two years of anticipated expenditures.

The company is currently in discussions with potential 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 pipelines in diabetes, MS, restenosis, and stroke.

CONSOLIDATED BALANCE SHEETS

[*See note 1*]

	Unaudited March 31, 2003 $	Audited June 30, 2002 $
ASSETS		
Current		
Cash and cash equivalents	627,902	2,894,277
Short-term investments	1,116,725	1,516,725
Interest receivable	25,439	5,180
GST receivable	57,394	55,047
Accrued accounts receivable	38,481	4,434
Investment tax credits receivable	403,400	276,400
Research inventory	845,648	879,232
Deposits on collaborations	-	282,201
Prepaid expenses and other assets	142,606	236,456
Total current assets	3,257,595	6,149,952
Long-term deposits	160,745	166,212
Capital assets, net	528,976	619,593
Technology [*note 3*]	33,167,005	36,272,608
	37,114,321	43,208,365
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities [*note 7*]	1,434,306	1,797,273
Current portion of leasehold inducement	3,698	3,698
Current portion of obligation under capital leases	16,011	23,895
Total current liabilities	1,454,015	1,824,866
Leasehold inducement	22,502	25,274
Obligation under capital leases	38,716	52,272
Provision for facility closure [*note 7*]	340,370	-
Future tax liability	5,054,598	7,490,963
Total liabilities	6,910,201	9,393,375
Research commitments [*note 6*]		
Subsequent events [*note 9*]		
Shareholders' equity		
Common shares [*note 4[b]*]	43,568,741	38,779,654
Class B shares [*note 4[b]*]	2,276,120	1,833,651
Contributed surplus [*note 4[c]*]	2,444,102	-
Stock options [*note 4[c]*]	832,538	890,288
Warrants [*note 4[c]*]	4,940	2,386,352
Deficit	(18,922,321)	(10,074,955)
Total shareholders' equity	30,204,120	33,814,990
	37,114,321	43,208,365

See accompanying notes

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(Unaudited)

	Nine-month period ended March 31, 2003 $	Nine-month period ended March 31, 2002 $	Three-month period ended March 31, 2003 $	Three-month period ended March 31, 2002 $
EXPENSES				
Research and development, net	3,119,758	2,141,501	595,691	1,401,266
General and administrative	1,152,618	1,067,921	395,724	526,376
Facility closure [*note 7*]	661,914	-	440,837	-
Amortization	6,177,929	1,765,365	2,124,783	1,742,255
Foreign exchange (gain) loss	17,344	(20,584)	20,683	(20,584)
	11,129,563	4,954,203	3,577,718	3,649,313
Loss before the undernoted	(11,129,563)	(4,954,203)	(3,577,718)	(3,649,313)
Interest income, net	30,178	186,033	6,476	37,882
Equity loss in affiliate [*note 3*]	(154,746)	-	(144,321)	-
Loss before income taxes	(11,254,131)	(4,768,170)	(3,715,563)	(3,611,431)
Provision for (recovery of) income taxes				
Current	29,600	12,000	6,200	12,000
Future	(2,436,365)	(858,561)	(700,782)	(858,561)
Net loss for the period	(8,847,366)	(3,921,609)	(3,020,981)	(2,764,870)
Deficit, beginning of period	(10,074,955)	(2,283,592)	(15,901,340)	(3,440,331)
Deficit, end of period	(18,922,321)	(6,205,201)	(18,922,321)	(6,205,201)
Basic net loss per common and Class B share [*note 4[b]*]	**$(0.17)**	**$(0.13)**	**$(0.05)**	**$(0.07)**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine-month period ended March 31, 2003 $	Nine-month period ended March 31, 2002 $	Three-month period ended March 31, 2003 $	Three-month period ended March 31, 2002 $
OPERATING ACTIVITIES				
Net loss for the period	(8,847,366)	(3,921,609)	(3,020,981)	(2,764,870)
Add (deduct) items not involving cash				
Amortization	6,190,223	1,789,356	2,128,882	1,753,717
Amortization of leasehold inducement	(2,772)	(2,772)	(924)	(924)
Recovery of income taxes - future	(2,436,365)	(858,561)	(700,782)	(858,561)
Equity loss	154,746	-	144,321	-
	(4,941,534)	(2,993,586)	(1,449,484)	(1,870,638)
Net change in non-cash working capital balances related to operations [*note 5*]	110,194	(771,486)	85,905	(961,019)
Cash used in operating activities	(4,831,340)	(3,765,072)	(1,363,579)	(2,831,657)
INVESTING ACTIVITIES				
Maturity of short-term investments	400,000	3,000,000	-	-
Purchase of short-term investments	-	-	-	-
Purchase of capital assets	(605)	(33,454)	-	(7,854)
Cash acquired on SCT purchase net of acquisition costs [*note 3*]	226,063	-	247,882	-
Decrease in deferred acquisition costs	-	-	-	526,532
Cash acquired on Waratah purchase net of acquisition costs	-	1,400,891	-	1,400,891
Cash provided by investing activities	625,458	4,367,437	247,882	1,919,569
FINANCING ACTIVITIES				
Repayment of obligation under capital leases	(21,440)	(22,878)	(9,401)	(8,371)
Proceeds from issuance of common shares, net [*note 4[b][i]*]	1,960,947	117,188	-	-
Cash provided by (used in) financing activities	1,939,507	94,310	(9,401)	(8,371)
Net increase (decrease) in cash and cash equivalents during the period	(2,266,375)	696,675	(1,125,098)	(920,459)
Cash and cash equivalents, beginning of period	2,894,277	4,604,138	1,753,000	6,221,272
Cash and cash equivalents, end of period	627,902	5,300,813	627,902	5,300,813

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 $1,744,627 at March 31, 2003. On May 23, 2003, the Company completed a private placement for gross proceeds of $664,000, as further discussed in note 9. With the completion of this private placement, the Company has adequate financing for anticipated expenditures until the end of October 2003. 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 6 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. CHANGE IN ACCOUNTING POLICIES (continued)

		Nine-month Period ended March 31, 2003 $	Three-month Period ended March 31, 2003 $
Net loss	As reported	(8,847,366)	(3,020,981)
	Pro-forma	(8,854,866)	(3,021,731)
Net loss per common and Class B share	As reported	(0.17)	(0.05)
	Pro-forma	(0.17)	(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. Due to the Company acquiring 100% of Stem Cell Therapeutics Inc. ("SCT"), as described in Note 3, this investment is no longer accounted for as an equity investment and has been treated as a subsidiary, and its results have been consolidated from January 31, 2003.

3. TECHNOLOGY

Technology consists of the following:

	March 31, 2003		
	Cost $	Accumulated amortization $	Net book value $
Acquired on acquisition of Waratah Pharmaceuticals Inc. ["Waratah"]	**39,799,917**	**9,618,314**	**30,181,603**
Acquired from Biogenesys, Inc.	**137,000**	**36,529**	**100,471**
Acquired on acquisition of SCT [*i*]	**3,055,560**	**170,629**	**2,884,931**
	42,992,477	**9,825,472**	**33,167,005**

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

	$
2003	8,307,233
2004	8,584,265
2005	8,584,265
2006	8,584,265
2007	4,919,958
2008	348,182
	39,328,168

[i] 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 SCT in exchange for 8,129,000 Class B non-voting shares in the Company.

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. Of the common shares issued 33,334 common shares were issued to the Company's Chairman and Chief Executive Officer ("CEO"). At March 31, 2003, the Company owns 100% of SCT and commencing January 31, 2003, the financial results of SCT have been consolidated with the financial results of the Company. This transaction was accounted for as a step purchase,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. TECHNOLOGY (continued)

with the Company identified as the acquirer. SCT was a privately held company investigating regenerative therapies for stroke and Parkinson's disease. Three directors of the Company were also directors for SCT. 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 $266,614]	405,454
Capital assets	8,987
Technology	3,055,560
	3,470,001
Liabilities assumed	
Current liabilities	153,901
Net assets acquired	**3,316,100**
Consideration given	
Common shares	999,429
Class B shares	2,276,120
Acquisition costs	40,551
	3,316,100

4. 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 pursuant to private placement, net [*i*]	5,715,432	1,956,007
Conversion of Class B shares	2,425,000	1,833,651
Issued on acquisition of SCT, net [*note 3*]	2,776,191	999,429
Balance, March 31, 2003	**54,523,831**	**43,568,741**

Class B shares	#	$
Balance, June 30, 2002	2,425,000	1,833,651
Issued for purchase of SCT, net [*note 3*]	8,129,000	2,276,120
Conversion to common shares	(2,425,000)	(1,833,651)
Balance, March 31, 2003	**8,129,000**	**2,276,120**
Total common and Class B shares, March 31, 2002	62,652,831	45,844,861

[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 cash 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 SCT 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 pricing model based on the following assumptions: expected warrant 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 and have been recorded as an additional expense for the private placement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SHARE CAPITAL
[b] Issued and outstanding and changes during the period (continued)

The weighted average number of shares used in the computation of basic net loss per common and Class B share for the nine-month period ended March 31, 2003 is 51,885,853 (nine-month period ended March 31, 2002 - 29,324,288) and the three-month period ended March 31, 2003 is 60,687,076 (three-month period ended March 31, 2002 - 41,155,276).

For the nine-month period ended March 31, 2003, 1,009,511 (nine-month period ended March 31, 2002 - 1,172,901) and for the three-month period ended March 31, 2003, 1,009,511 (three-month period ended March 31, 2002 - 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 4[b][i]*]	26,000	4,940
Share purchase warrants outstanding, March 31, 2003	**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. 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	(236,591)
Stock options outstanding, March 31, 2002	**3,863,530**

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.

5. 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, 2003 $	Nine-month period ended March 31, 2002 $	Three-month period ended March 31, 2003 $	Three-month period ended March 31, 2002 $
Interest receivable	(20,259)	109,640	(7,164)	5,817
GST receivable	(1,402)	121,598	(34,300)	47,565
Accrued accounts receivable	(32,282)	(3,965)	11,941	(3,965)
Investment tax credits receivable	(127,000)	(68,219)	(33,000)	(24,000)
Research inventory	33,584	(401,248)	2,361	(381,411)
Deposits on collaborations	282,201	(24,546)	-	71,810
Prepaid expenses and other assets	95,694	(67,793)	(12,219)	(2,006)
Long-term deposits	5,467	-	12,028	-
Accounts payable and accrued liabilities	(466,179)	(413,103)	146,258	(650,979)
Provision for facility closure	340,370	-	-	-
Income taxes payable	-	(23,850)	-	(23,850)
	110,194	(771,486)	85,905	(961,019)
Supplemental cash flow information				
Interest paid	11,593	7,005	6,417	4,997
Taxes paid	23,881	23,850	12,441	23,850

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

In addition, the shares issued to purchase SCT as discussed in note 3 are non-cash transactions.

Amortization on the technology of $71,149 is included as part of the equity loss on the consolidated statements of loss and the consolidated statements of cash flow.

6. RESEARCH COMMITMENTS

As at March 31, 2003, the Company is committed to aggregate expenditures of $109,250 [June 30, 2002 - $264,444] under its collaboration agreements. In addition, at March 31, 2003, the Company is committed to aggregate expenditures of approximately $170,707 [June 30, 2002 - $913,635] for clinical and toxicity studies to be completed during fiscal 2003 and approximately $6,670 [June 30, 2002 - $440,835] for manufacturing agreements.

7. FACILITY CLOSURE

In connection with the acquisition of Waratah, the Company consolidated the management team and determined that it would close the Waratah research facility in Woburn, MA [the "Woburn Facility"]. In connection with this closure and the consolidation of management, the Company included in the purchase equation a severance accrual of $548,277, estimated lease exit costs of $186,600 and adjusted the preliminary fair value of the assets acquired from $693,281 to $363,281. As at March 31, 2003, $538,803 of the severance costs have been paid and the remaining severance accrual is included in accounts payable and accrued liabilities. During the second and third quarter of fiscal 2003, as a result of unfavourable real estate market conditions, the Company has determined that the original estimated lease exit costs for the Woburn Facility are no longer adequate. As a result, during the three months ended March 31, 2003, the Company has recorded a further provision for lease exit costs of $440,837 [during the nine months ended March 31, 2003 - $661,914], which has been expensed as facility closure on the statements of loss and deficit. As at March 31, 2003, $704,445 of the provision for lease exit costs remains unpaid of which $364,075 is current and is included in accounts payable and accrued liabilities and $340,370 is non-current and is shown as provision for facility closure.

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:		
Nine-months ended March 31, 2003	7,650,815	1,196,551
Nine-months ended March 31, 2002	3,314,966	606,643
Three-months ended March 31, 2003	2,388,070	632,911
Three-months ended March 31, 2002	2,158,227	606,643

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. SEGMENTED INFORMATION (continued)

	Canada $	United States $
Amortization of capital assets:		
Nine-months ended March 31, 2003	43,257	56,952
Nine-months ended March 31, 2002	35,434	46,527
Three-months ended March 31, 2003	14,418	18,139
Three-months ended March 31, 2002	12,324	46,527
Interest income (expense):		
Nine-months ended March 31, 2003	34,964	(4,786)
Nine-months ended March 31, 2002	186,033	-
Three-months ended March 31, 2003	7,005	(529)
Three-months ended March 31, 2002	37,882	-
Income taxes:		
Nine-months ended March 31, 2003	-	29,600
Nine-months ended March 31, 2002	-	12,000
Three-months ended March 31, 2003	-	6,200
Three-months ended March 31, 2002	-	12,000
Recovery of income taxes - future:		
Nine-months ended March 31, 2003	2,436,365	-
Nine-months ended March 31, 2002	858,561	-
Three-months ended March 31, 2003	700,782	-
Three-months ended March 31, 2002	858,561	-
Capital assets:		
March 31, 2003	244,027	284,949
June 30, 2002	277,692	341,901

9. SUBSEQUENT EVENTS

On May 23, 2003, the Company completed a private placement which raised gross proceeds of $664,000 through the issuance of 2,075,000 common shares at a price of $0.32 per share. The Company received $128,000 from Dr. Tony Cruz, Chairman and CEO, and the remaining financing from other investors. As consideration in connection with the private placement, the Company granted a dealer, a company owned by a director of the Company, a cash commission of $5,600 and share purchase warrants entitling the dealer to acquire 25,000 common shares at a purchase price of $0.32 per share. These warrants expire on May 23, 2005.

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