PRELIMINARY PROSPECTUS DATED DECEMBER 21, 2000

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. The securities offered hereunder have not been and will not be registered under the United States Securities Act of 1933, as amended, and subject to certain exemptions, may not be offered or sold within the United States of America. See "Plan of Distribution".

Initial Public Offering

TRANSITION THERAPEUTICS INC.

$?

? Common Shares

This offering (the "Offering") consists of ? common shares in the capital of Transition Therapeutics Inc. ("Transition" or the "Corporation") which are hereby being offered to the public at a price of $? per Common Share (the "Offering Price"). **There is currently no market through which the common shares in the capital of the Corporation (the "Common Shares") may be sold.** The Offering Price was determined by negotiation between the Corporation and Canaccord Capital Corporation (the "Agent").

Price: $? per Common Share

	Price to the Public	Agent's Fee[(1)]	Net proceeds to the Corporation[(2)]
Per Common Share	$?	$?	$?
Total[(3)(4)(5)]	$?	$?	$?

(1) As additional compensation, the Corporation will issue to the Agent on the closing of the Offering compensation warrants (the "Agent's Warrants") entitling the Agent to purchase that number of Common Shares as is equal to 10% of the number of Common Shares issued and sold by the Corporation pursuant to the Offering (including Common Shares sold pursuant to the Over-Allotment Option (as defined below)), exercisable at the Offering Price, for a period of 18 months following the closing of the Offering. This prospectus qualifies the distribution of the Agent's Warrants. See "Plan of Distribution".

(2) Before deducting expenses of the Offering, estimated to be $?. See "Use of Proceeds".

(3) The Corporation has granted to the Agent, for a period of 30 days following the date upon which the Common Shares are first listed for trading on the Canadian Venture Exchange ("CDNX"), the right (the "Over-Allotment Option") to purchase at the Offering Price up to that number of Common Shares as is equal to 10% of the number of Common Shares sold pursuant to the Offering in order to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the total Price to the Public, Agent's Fee and Net Proceeds to the Corporation will be $?, $? and $?, respectively. This prospectus also qualifies the distribution of Common Shares issuable upon exercise of the Over-Allotment Option. See "Plan of Distribution".

(4) This prospectus also qualifies: (i) the distribution of 6,500,000 Class B shares (the "Non-Voting Class B Shares") and 3,250,000 warrants to purchase Non-Voting Class B Shares (the "Class B Warrants") of the Corporation issuable without additional payment upon the exercise or deemed exercise of the 6,500,000 special warrants of the Corporation (the "Special Warrants") issued on October 20, 2000 at a price of $0.80 per Special Warrant; and (ii) stock options (the "Stock Options") to acquire 265,000 Common Shares to be granted to employees of the Corporation at the closing of the Offering pursuant to the Corporation's stock option plan. See "Private Placement" and "Plan of Distribution".

(5) No fee will be paid to the Agent, and the Corporation will not receive any additional proceeds, in connection with the Non-Voting Class B Shares and Class B Warrants to be issued upon the exercise or deemed exercise of the Special Warrants.

An investment in securities of the Corporation is speculative and involves significant risks which should be carefully considered by prospective investors before purchasing such securities. See "Risk Factors". The Offering Price exceeds the unaudited consolidated net tangible book value per Common Share as at September 30, 2000, after giving effect to this Offering and the issuance of the Special Warrants and the exercise or deemed exercise thereof but prior to giving effect to (i) the conversion of the Non-Voting Class B Shares and the exercise of the Class B Warrants resulting from an exercise or deemed exercise of the Special Warrants, (ii) the exercise of the Over-Allotment Option, (iii) the exercise of the Agent's Warrants, and (iv) the exercise of the Stock Options, by $?, representing a dilution of ?%. See "Dilution".

The Agent, as agent, conditionally offers the Common Shares, subject to prior sale on a "best efforts" basis, if, as and when issued and sold by the Corporation, and accepted by the Agent in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Fasken Martineau DuMoulin LLP and on behalf of the Agent by Donahue Ernst & Young LLP.

Subscriptions will be received subject to rejection or allotment in whole or in part, and the right is reserved to close the subscription books at any time without notice. It is expected that definitive certificates representing the Common Shares purchased pursuant to this Offering will be available for delivery at the closing of the Offering which is to take place on or about ?, 2001 or such other date as the Corporation and the Agent may agree but, in any event, not later than ?, 2001.

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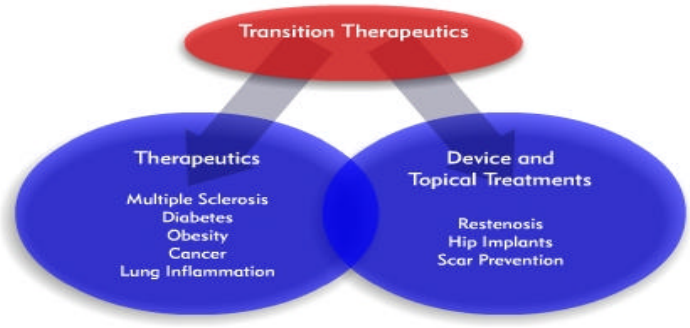
PROSPECTUS SUMMARY

The following is a summary only and is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements and notes thereto appearing elsewhere in this prospectus. All references to "Transition" or to the "Corporation" are to Transition Therapeutics Inc. and its subsidiary. Reference is made to the "Technical Glossary" for the meanings of certain defined terms. All references in this prospectus to "$" or to "dollars" refer to lawful currency of Canada unless otherwise specified.

The Corporation

Transition is a biopharmaceutical company that is developing therapeutic agents to prevent and inhibit inflammatory and fibrotic diseases through disease specific, non-toxic mechanisms. The Corporation's technology is based on over 20 years of research by Transition's scientific founders in the area of inflammation and fibrosis. The Corporation's technology targets a specific "transitional" molecule, a hyaladherin termed RHAMM (Receptor for Hyaluronic Acid Mediated Motility), involved in recruiting and converting normal, healthy cells into highly responsive and destructive diseased cells. The Corporation's scientists have demonstrated in pre-clinical studies that the inhibition of RHAMM suppresses abnormal matrix remodelling during disease and may be an ideal therapeutic target since it is transiently expressed and not involved in normal tissue turnover. The Corporation believes that its disease specific platform technology allows the development of therapeutic inhibitors of transitional molecules that act only on cells undergoing conversion from a normal to a diseased state. These inhibitors may be used for the treatment of a number of inflammatory, proliferative and degenerative diseases, as well as having applications related to complications resulting from injury or surgery.

The Corporation's research and development activities are divided into two distinct programs: the Therapeutics Program and the Device and Topical Treatments Program. The Therapeutics Program is currently focussed on the research and development of therapeutic products for the treatment of multiple sclerosis, diabetes and obesity with other potential therapeutic applications in cancer and lung inflammatory diseases. The Device and Topical Treatments Program



areas of research include restenosis, hip implants and scar prevention.

The Offering

Issue: • Common Shares.

Offering Price: $• per Common Share.

Over-Allotment Option: The Corporation has granted to the Agent, for a period of 30 days following the date upon which the Common Shares are first listed for trading on CDNX, the right to purchase at the Offering Price up to that number of Common Shares as is equal to 10% of the number of Common Shares purchased pursuant to the Offering in order to cover over-allotments, if any. See "Plan of Distribution".

Use of Proceeds: The net proceeds of the Offering, assuming no exercise of the Over-Allotment Option, are estimated to be $•, after deducting expenses of the Offering estimated at $• and the Agent's fee of $•.

The Corporation expects that the net proceeds from the Offering will be used as follows:

Research and development	$•
Manufacturing, formulations and process development	$•
Toxicology studies	$•
Working capital and general corporate purposes	$•
TOTAL	$•

See "Use of Proceeds".

Risk Factors: An investment in Common Shares entails certain risk factors and should be considered to be highly speculative. In particular, prospects for emerging companies in the biopharmaceutical industry generally may be regarded as uncertain given the nature of the industry. The Corporation's technologies are currently in the research and development stage, which is the riskiest stage for a company in the biopharmaceutical industry. As at the date hereof, the Corporation has not introduced a product into the market. There is no assurance that the Corporation's research and development programs will lead to any commercially viable product. The Corporation has not generated revenues to offset its research and development costs and, as a result, has had no earnings, minimal revenues and negative cash flows to date. The Corporation has incurred losses and anticipates that its losses will increase as it continues its research and development. The proceeds of the Offering may be inadequate to fund the Corporation's future capital requirements and there is no guarantee that future financing will be available. The Corporation is dependent upon the services of certain key personnel and upon third party relationships, the loss of which could adversely affect the Corporation's future prospects. While the Corporation and others have filed certain patent applications to protect its technology, there is no assurance that such applications will be allowed or will protect the Corporation's technology. There is no assurance that a third party will not claim infringement by the Corporation with respect to current or future technology or products of the Corporation. The Corporation's product candidates have not received regulatory approval and may be subject to a long and expensive regulatory approval process, and such approvals may be applicable to a limited extent or refused in its entirety. Competition in the biopharmaceutical industry is intense and many of the Corporation's competitors have substantially greater resources than the Corporation. There is no assurance that any product developed by the Corporation will compete successfully. The Corporation has no experience in marketing or manufacturing and may have to rely on third parties to perform such functions. The sale and use of any product of the Corporation may entail risk of product liability and there is no assurance that the Corporation will be able to

obtain appropriate levels of product liability insurance for the use of its products in clinical trials or for commercial sale. The Common Shares are speculative securities and there has been no public market for the Common Shares. An investment in Common Shares should only be considered by those investors who are able to make a long-term investment and can afford to suffer a total loss of their investment. See “Risk Factors”.

TECHNICAL GLOSSARY

As used in this prospectus, the following terms have the respective meaning specified below:

"antibody" means a protein produced by certain white blood cells in response to a foreign substance to aid in destroying the foreign substance.

"AP-1 pathway" means a series of reactions within a cell initiated by the binding of a growth factor or cytokine to a receptor on the surface of a cell.

"axon" means a long fiber of a nerve cell that acts somewhat like a fiber-optic cable carrying outgoing messages.

"beta cells" or **"ß cells"** means cells in the pancreas that secrete insulin in response to an increase in blood glucose concentration.

"cancer" means diseases in which abnormal cells divide without control.

"cytokine" means small proteins or other types of molecules that are released by cells and have a specific effect on other cells.

"demyelinate" means the loss of a sheath surrounding an axon.

"diabetes" means a chronic metabolic disorder characterized by high blood glucose concentrations resulting from defective metabolic utilization of carbohydrates due to the absence or incomplete utilization of insulin, thus depriving the body of energy producing nutrients needed for normal functioning.

"differentiation" means the series of events occurring in undifferentiated cells or tissues that results in the development of different specialized cell functions or products.

"fibrosis" means scarring of tissue.

"glucose" means a sugar that is the principal source of energy for cells and differentiation of cells.

"growth factors" means potent molecules secreted from cells into tissue fluids that stimulate the growth function.

"hyaladherin" means a peptide that binds hyaluronic acid, being a chain of sugars.

"*in vitro*" means studies not performed in a living organism.

"*in vivo*" means in the living body.

"inflammation" means a non-specific immune system response that occurs in reaction to any form of bodily injury.

"insulin" means a peptide hormone secreted from pancreatic ß cells that removes glucose from the blood by stimulating glucose uptake and utilization by fat, muscle and liver cells.

"islet cells" means beta cells.

"lymphocytes" means white blood cells that fight infection and disease.

"macrophage" means a type of cell that kills foreign cells by engulfing and digesting them.

"metalloproteinase" means a matrix-degrading enzyme.

"metastasis" means the spread of cancer from one part of the body to another. Cells in the metastatic (secondary) tumor are like those in the original (primary) tumor.

"monoclonal antibody" means an antibody that binds with a specific sequence on a protein.

"multiple sclerosis" or **"MS**" means an autoimmune disease characterized by an immune attack on myelin.

"myelin" means a layer made of protein and lipids (i.e. - fatty substances) that forms a sheath around nerves and speeds the transmission of impulses along nerve cells.

"NOD" means a non-obese diabetic mouse model for Type I diabetes.

"obesity" means the state of being overweight. A person is considered to be obese if he or she is more than 20 percent over his or her ideal weight.

"pancreas" means a glandular organ which secretes hormones such as insulin into the blood stream.

"peptide" means a molecule made up of a number of amino acids linked together.

"podosomes" means small cell extensions resulting from injury to a cell.

"proliferation" means an increase in the number of cells resulting from the division of cells.

"restenosis" means the recurrence of narrowed arteries, after intervention, that is inadequate to sustain blood flow.

"RHAMM" means Receptor for Hyaluronic Acid Mediated Motility, which is a peptide.

"stent" a cylindrical medical device inserted into a body duct to prevent collapse, blockage or overgrowth.

"Type I diabetes" means an autoimmune disease causing a permanent and absolute deficiency of insulin resulting from destruction of pancreatic cells by the body's own immune system.

"Type II diabetes" means a metabolic disorder resulting from a relative deficiency of insulin secretion insufficient to prevent high blood glucose levels.

THE CORPORATION

The Corporation was incorporated pursuant to the provisions of the *Business Corporations Act* (Ontario) on July 6, 1998. The Corporation filed articles of amendment on October 12, 2000 and on October 19, 2000 to create the Non-Voting Class B Shares and to amend certain attributes of the Common Shares. See "Description of Share Capital". On November 2, 2000, the Corporation filed articles of amendment to delete its private company restrictions. On December 14, 2000, the Corporation filed articles of amendment to change its name to Transition Therapeutics Inc. from Transition Therapeutics and Diagnostics Inc. and to effect a split of its issued and outstanding Common Shares on the basis of 3.25649 Common Shares for each previously issued and outstanding Common Share. Unless otherwise noted, this prospectus gives effect to this stock split. The Corporation's principal and registered office is located at Suite 1103, 415 Yonge Street, Toronto, Ontario, M5B 2E7.

BUSINESS OF THE CORPORATION

Transition is a biopharmaceutical company that is developing therapeutic agents to prevent and inhibit inflammatory and fibrotic diseases through disease specific, non-toxic mechanisms. The Corporation's technology is based on over 20 years of research by Transition's scientific founders in the area of inflammation and fibrosis. The Corporation's technology targets a specific "transitional" molecule, a hyaladherin termed RHAMM, involved in recruiting and converting normal, healthy cells into highly responsive and destructive diseased cells. The Corporation's scientists have demonstrated in pre-clinical studies that the inhibition of RHAMM suppresses abnormal matrix remodelling during disease and may be an ideal therapeutic target since it is transiently expressed and is not involved in normal tissue turnover. The Corporation believes that its disease specific platform technology allows for the development of therapeutic inhibitors of transitional molecules that act only on cells undergoing conversion from a normal to a diseased state. These inhibitors may be used for the treatment of a number of inflammatory, proliferative and degenerative diseases, as well as having applications related to complications resulting from injury or surgery.

Transition's Platform Technology

The scientific community generally acknowledges that inflammatory, fibrotic and degenerative diseases involve the abnormal remodelling of the cell's environment to permit migration/invasion and proliferation. It is now commonly understood by the scientific community that cytokines/growth factors and matrix degrading enzymes control these events and are, in turn, regulated by a common factor known as activating protein-1 ("AP-1"). Activation of AP-1 is required for the induction of a large number of genes that are required for an array of disease processes, which disease processes are outlined in Figure 1. Current approaches and agents used to inhibit AP-1 activation have proven useful in the treatment of inflammatory and proliferative diseases. However, such approaches and agents that inhibit AP-1 also adversely affect normal tissue renewal. Identifying pathways that activate AP-1 only during disease processes may allow for the development of effective and non-toxic therapeutic agents. Transition has developed a platform technology based upon the discovery by the Corporation's founding scientists of such a "disease specific" pathway which may inhibit AP-1 activation without producing toxic effects.

Figure 1: Transcriptional regulation of genes involved in disease process

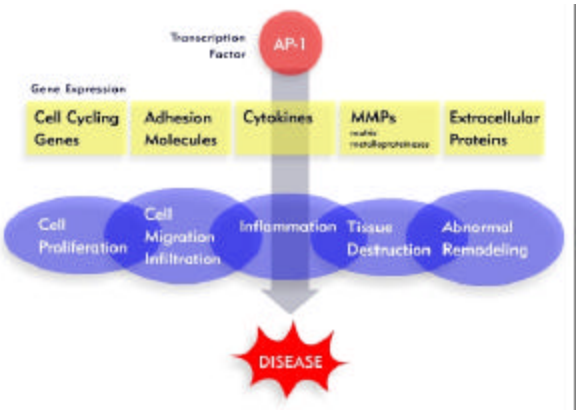
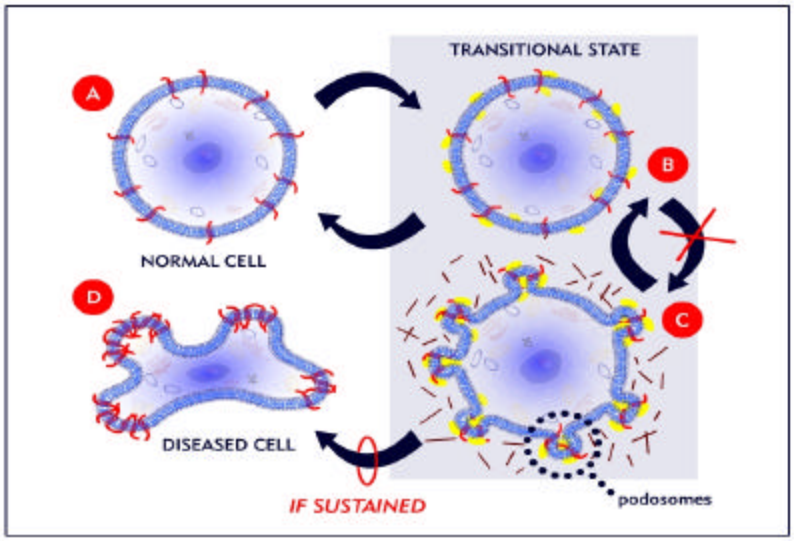


Figure 2 illustrates the transitional steps that occur during the process whereby a normal cell becomes a diseased cell. Normal cells are restricted in their ability to activate specific AP-1 pathways (Figure 2, Stage A) and as a result are unable to maximally activate AP-1 in response to pro-inflammatory cytokines or growth factors. Transitional molecules, such as RHAMM, are transiently expressed following tissue injury or initiation of disease and act to propel a cell through intermediate steps (Figure 2, Stages B and C) leading to a cell that is fully responsive to pro-inflammatory cytokines and growth factors (Figure 2, Stage D). Such transitional molecules activate the previously restricted pathways leading to AP-1 activation and regulate the formation of podosomes that permit cells to begin to remodel their environment. When the expression of transitional molecules is sustained, the cells cannot revert back to a homeostatic state and disease ensues.

Figure 2: Transitional steps from a normal to a diseased cell



The Corporation has developed its platform technology based upon the identification of these intermediate steps toward disease and the key molecules regulating these steps. One of these molecules is the hyaladherin, RHAMM. The RHAMM molecule is capable of removing the restriction on the activation of the AP-1 pathway in normal cells in tissues, resulting in activation of the AP-1 pathway leading to the expression of AP-1 dependent disease processes (Figure 2). The RHAMM molecule serves as a specific target on the cell that is required for the activation of the AP-1 pathway, as well as the transitional states of cells undergoing conversion from a normal to a diseased state. The Corporation has developed a number of peptides and antibodies as therapeutic agents and has completed animal experiments indicating that RHAMM therapeutics suppress fibrosis and contraction. Such therapeutic agents act on a variety of cells responding to injury or disease, particularly macrophages, and act to inhibit activation of signalling pathways leading to AP-1 activation and intermediate transitional steps such as the development of podosomes. Further, these therapeutic agents restrict abnormal tissue remodelling common to all diseases related to inflammation, fibrosis and injury related complications.

In Vitro Validation of Transition's Therapeutic Agents

Based on Transition's platform technology, the Corporation has developed a number of peptides and antibodies directed at competing with or inhibiting RHAMM and RHAMM-like molecules in order to prevent inflammatory and fibrotic diseases. The peptides and antibodies developed by Transition were selected on the basis of inhibiting a number of AP-1 dependent genes or disease processes as outlined in Figure 3. One of these peptides, P-16, was found to inhibit and decrease several disease processes involved in the generation of inflammatory and proliferative diseases, such as cell migration, gel contraction, AP-1 activity, matrix metalloproteinase production and cytokine activation, being processes that are involved in the conversion of normal cells to a diseased state. Transition's scientists and collaborators have demonstrated that antibodies to RHAMM have similar effects to those observed with RHAMM

peptides. Since these disease processes are found in inflammatory and proliferative diseases, as well as in relation to complications in response to injury, the data suggest that peptides and antibodies that target transitional molecules may be effective in the treatment of inflammatory diseases and complications associated with response to injury or surgery.

Figure 3 below outlines the disease processes that Transition's P-16 peptide has been found to inhibit based on *in vitro* studies.

Figure 3: P-16 peptide efficacy demonstrated *in vitro*

Effectiveness	P-16 peptide
Decreases cell migration	☑
Decreases gel contraction	☑
Decreases MMP activity	☑
Decreases cell invasion	☑
Decreases AP-1 activity	☑
Decreases cytokine activation	☑
Inhibits podosome formation	☑

Transition's Development Programs

The ability of Transition's platform technology to develop inhibitors that may prevent the conversion of normal cells into transitional states and finally into a diseased or responsive state has prompted the Corporation to establish a Therapeutics Program and a Device and Topical Treatments Program. These programs are all in the discovery, formulation and pre-clinical stages of development. In all of these programs, RHAMM peptides and/or antibody formulations have been found to inhibit disease processes *in vitro* and in animal models. The Therapeutics Program and Device and Topical Treatments Program are focussed on the following disease specific applications:

Therapeutics Program:

1. Multiple sclerosis
2. Diabetes
3. Obesity
4. Other therapeutics applications such as cancer and lung inflammatory diseases

Device and Topical Treatments Program:

1. Coated devices: restenosis and hip implants
2. Topicals: scar prevention

The Corporation has selected multiple sclerosis, diabetes and obesity as priority areas for product development in its Therapeutics Program. Management of Transition believes that these priority areas will provide the greatest near term potential to achieve clinical success. In Transition's Device and Topical Treatments Program, the Corporation intends to focus on the development of systemic drugs and drug coated stents for the treatment of cardiovascular restenosis and loosened hip implants, and on topical formulations for scar prevention following cosmetic surgeries.

Therapeutics Program

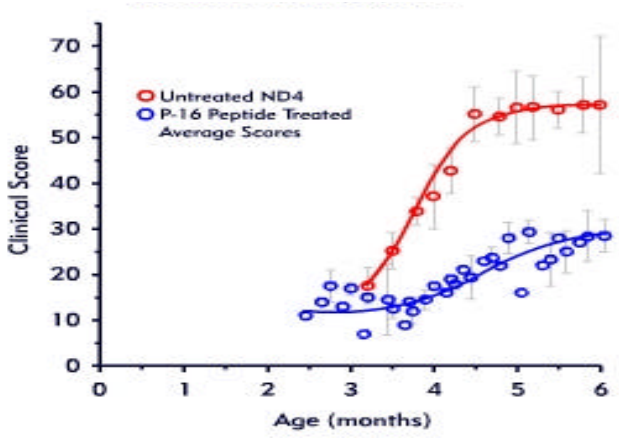
Treatment of Multiple Sclerosis (MS)

MS is the most common of the demyelinating disorders. According to the United States National Multiple Sclerosis Society, MS affects approximately one in 1000 persons in the United States and Europe. Treatment costs related

to the disease are estimated to be approximately US$1.5 billion worldwide on an annual basis. Although the causes of MS are unknown, current scientific belief is that genetic, environmental and immunological factors are responsible for a co-ordinated attack on myelin. The hallmark lesion in MS is a demyelinated area in which the axon is surrounded by certain cell processes. The accompanying inflammatory reaction is characterized by an infiltration of lymphocytes and macrophages into the central nervous tissue. Cytokines and macrophage activation play an important role in the breakdown of the blood brain barrier which eventually leads to the loss of myelin and motor function. Transition's animal studies have shown that RHAMM peptides and mimetics inhibit the migration and invasion of macrophages and certain other cell types.

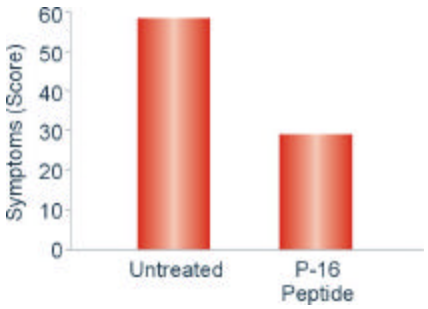
In a study conducted by Dr. Mario Moscarello at the Hospital for Sick Children, the effect of Transition's P-16 peptide on a transgenic animal model for MS was examined (Figure 4). Transgenic animals were treated with peptides for periods of 12 to 15 weeks. The animals were then examined for MS-like symptoms (such as a loss of balance, head jerking and a limp tail) that are characteristic of increased disease activity. Transition's P-16 peptide was shown to be highly effective in inhibiting the clinical signs of MS when compared to untreated animals. Further, the animals treated with Transition's P-16 peptide did not exhibit any signs of gross toxicity, such as loss of weight or diarrhea.

Figure 4: Treatment of transgenic mice with RHAMM peptide



Dr. Moscarello also examined the effect of Transition's P-16 peptide on transgenic mice with advanced disease that occurs in animals at approximately five months of age (Figure 5). Treatment of animals with Transition's P-16 peptide for three weeks was observed to decrease disease activity in relation to the animals in the study that were untreated. Consequently, such findings suggest that Transition's P-16 peptide is effective in the treatment of early as well as more advanced disease in this animal model.

Figure 5: P-16 Peptide suppresses disease activity in transgenic mice



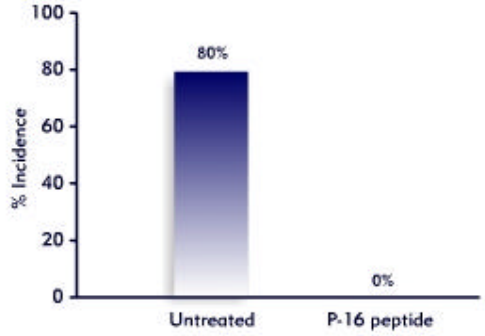
Transition is currently testing several peptides in animal models in order to select a leading peptide with maximum efficacy and minimal complications upon which to base a product candidate for the possible treatment of MS. The leading peptide candidate will be used for the pre-clinical toxicity studies which may lead to an Investigational New Drug ("IND") submission to the appropriate regulatory body in order to permit Transition to engage in a toxicity study in humans. See "Regulatory Requirements".

Treatment of Diabetes

Type I diabetes is a common disorder of the immune system. According to the American Diabetes Society, it is estimated that there are currently 2.5 million people in North America who suffer from the disease. Although the cause of Type I diabetes is not known, the disease is characterized by a loss of islet cells and an eventual decrease in insulin production. It is believed that inflammatory cells may play a key role in the destruction of islet cells. Agents which inhibit inflammatory cells or stimulate islet cell proliferation may be effective in reversing the disease. Several animal models exist, including NOD mice, which are used to select candidate therapeutic agents for the treatment of diabetes.

In a study conducted by Dr. David Hart of the University of Calgary, Transition's P-16 peptide was examined for its effect on treating Type I diabetes in a NOD animal model. Generally, NOD mice develop the disease between 15-20 weeks of age with a 70-80% incidence as evidenced by increased glucose levels in the urine. As shown in Figure 6 below, untreated animals exhibited an incidence of glucose in their urine of approximately 80%. Animals treated with Transition's P-16 peptide for 23 weeks (3 times per week) did not develop the disease as evidenced by normal urine levels. Such data suggest that Transition's P-16 peptide inhibits disease onset in an established model for Type I diabetes and may have therapeutic uses for the treatment of such disease.

Figure 6: Effect of P-16 peptide in NOD mice



There are a number of additional symptoms associated with diabetes, such as increased water consumption and kidney fibrosis, respectively. The data in Figure 7 below indicate that the Corporation's P-16 peptide prevented the pattern of increased water consumption observed in the untreated mice, reflecting the reduced incidence of diabetes. One of the major complications of diabetes is kidney fibrosis. In NOD mice, there is an increase in kidney weights that reflects fibrosis with the onset and progression of diabetes as shown in Figure 8 below. Treatment of the NOD mice with the Corporation's P-16 peptide inhibited such an increase in kidney weights. From these studies, the Corporation believes that its peptide may prevent the development of diabetes and associated complications in the NOD model of human insulin dependent diabetes.

Figure 7: Effect of P-16 peptide on water consumption in NOD mice

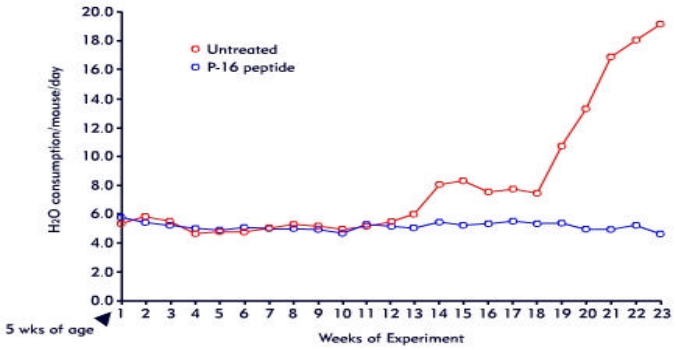
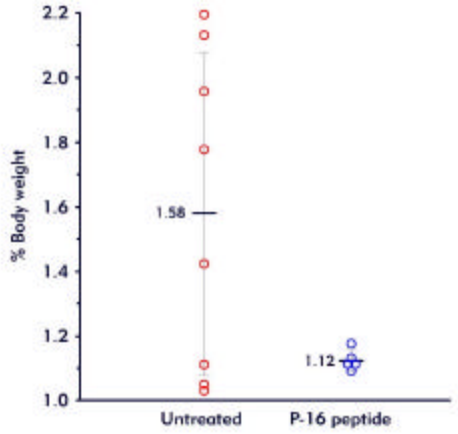


Figure 8: Effect of P-16 peptide on kidney weight in NOD mice



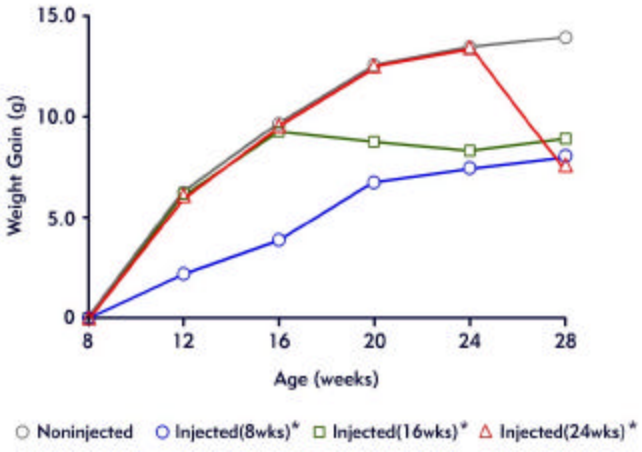
Note: 2 untreated animals died during the course of experiment

The Corporation is currently studying the selection of a leading peptide candidate that it will use for preclinical studies which may lead to an IND submission in respect of the treatment of diabetes. In the event that the leading peptide candidate is the same as the peptide chosen for the treatment of multiple sclerosis, the pre-clinical toxicity studies performed on such leading peptide candidate may be used to provide evidence of the peptide candidate's toxicity for both diseases.

Treatment of Obesity

Obesity is a chronic disease. The prevalence of obesity in markets such as Canada, the United States, Europe and Australia is between 15-20% and the incidence of obesity has been observed to be increasing over time. According to a study conducted by the National Institute of Diabetes & Digestive Kidney Diseases**,** in the United States alone, approximately 38 million people are obese. Obesity may lead to numerous diseases such as diabetes, cardiovascular disease, degenerative joint disease and stroke, as well as an increased incidence of infection.

Figure 9: Effect of P-16 peptide on weight gain in mice models



The Corporation examined the effect of P-16 peptide therapy in a lupus model in female mice. The animals in the lupus model develop autoimmune disease that increases with severity from 8 to 32 weeks of age. P-16 peptide treatment of these animals over this period had no significant effect on the lupus symptoms. However, the animals in this model also develop a fat pad around their abdomen that typically represents 15-20% of their weight and which is similar to obesity that occurs in other animals. Eight-week old mice treated with the Corporation's P-16 peptide did not develop the fat pad, as did the untreated mice (Figure 9 above). Further, treatment with Transition's P-16 peptide at either 16 or 24 weeks of age, when the fat pad is already present, resulted in a loss of fat. These data are suggestive that the P-16 peptide may be useful for the treatment of obesity. The Corporation is planning to use other accepted obesity animal models in order to determine the efficacy of Transition's peptides in relation to the treatment of obesity. Depending on the outcome of these studies, the Corporation intends to make a decision regarding whether to develop Transition's peptides for the treatment of obesity.

Other Therapeutic Applications

Cancer

According to the American Cancer Society, one in four Americans will develop cancer and the number of deaths each year as a result of cancer in the United States is over 500,000. Accordingly, there is a recognized need to develop therapeutic treatments for this disease.

The Corporation's research data based on animal studies have shown that RHAMM expression is highly correlative with invasive and metastatic cells that result in increased mortality and a decreased lifespan. Further, the Corporation's peptides were witnessed in such studies to inhibit cell invasion and the production of matrix metalloproteinases by cancer cells, which represent two important processes in metastases. These data suggest that the Corporation's peptides may reduce or inhibit tumor growth and metastases in animals. While the Corporation's studies have shown some promising results in treating certain types of cancer metastases in animal models, further study is required by the Corporation in the area of therapeutic cancer treatment. If such studies lead to favourable results, the Corporation would anticipate developing product candidates in this therapeutic area over the long-term. However, at this time, cancer treatment does not constitute a primary focus of Transition's Therapeutics Program.

Lung Inflammatory Diseases

The treatment of lung inflammatory diseases, such as emphysema, asthma and cystic fibrosis, represents a significant share of both the North American and worldwide market for pharmaceutical agents. Treatment costs for lung inflammatory diseases have been estimated by IMS Canada to be US$7.0 billion worldwide on an annual basis. Accordingly, there is a need for compounds that treat lung inflammatory disease in the absence of any side effects.

The Corporation has used an irritant-induced lung inflammatory rat model to examine the effect of Transition's peptides on lung inflammation. Following irritant administration, the rats developed lung inflammation and fibrosis at 4 days and 7 days, respectively. The Corporation's studies have demo nstrated that a single dose of RHAMM peptide mimetic completely prevents these pathological events in irritant-induced lung injury. These data suggest that the Corporation's peptide therapy may be useful for the treatment of diseases that involve lung inflammation and fibrosis.

The Corporation plans to examine several peptides for the treatment of lung inflammatory diseases. Depending on the resulting data, the Corporation may seek a pharmaceutical partner to develop drugs for the treatment of lung inflammatory disease, given the high costs and length of time required for the development of these drugs. However, at this time, the Corporation does not intend to focus on developing a therapeutic treatment for lung inflammatory diseases.

Device and Topical Treatments Program

Device Program

Transition believes that its peptide products inhibit injury induced inflammation and fibrosis, are non-toxic and are ideal for local delivery at the site of device insertion or for systemic treatment prior to medical or surgical procedures. The Corporation intends to focus on developing drugs in systemic formulations or in local delivery formulations that are designed to reduce (i) restenosis associated with stenting and other related cardiovascular treatments and (ii) the development of soft tissue fibrosis associated with hip implant surgeries that may be responsible for the eventual loosening of the hip implants. The Corporation has selected these two specific areas based on considerations such as: the large market size (as discussed below); the ability for treatment to be initiated at the time of injury; the potential effectiveness of both systemic and local delivery systems; and the significant advantages that the development of non-toxic compounds to treat device complications in the areas of stenting and hip transplants may have over potentially toxic agents.

Treatment of Restenosis

Over 600,000 coronary angioplasties are performed in the United States alone per year. The size of the coronary stents market in the United States has been estimated by the American Heart Association to be over US$1.5 billion and the worldwide market to be approximately US$3.6 billion. Therapeutic interventions developed to treat vascular diseases, such as atherectomy, balloon angioplasty and insertion of stents and arterial and venous grafts, have demonstrated good clinical results, but are limited by restenosis. As such, there is a need to develop products for the treatment of restenosis.

Restenosis involves macrophage infiltration, abnormal matrix remodelling and smooth muscle cell invasion. The Corporation's scientists have reported that RHAMM levels are enhanced in animal models of vascular injury. Previous data have demonstrated that Transition's peptides inhibit smooth muscle cell migration, a key feature of restenosis. In collaboration with Dr. Bradley Strauss of St. Michael's Hospital in Toronto and Dr. Michelle Bendeck of the University of Toronto, the Corporation has initiated animal studies in order to examine the effect of several peptides on injury and stent induced restenosis. The Corporation intends to develop both a systemic formulation that would have a broad application with devices or procedures that cause restenosis and an application for the local delivery of peptides on cardiovascular stents. Should such technology be validated, the Corporation intends to seek a device manufacturer for the development of a product for use in treating restenosis. Drug coated cardiovascular devices would require approval as a device from the appropriate regulatory authorities, whereas the systemic formulation would require approval through the therapeutic drug approval process (see "Regulatory Requirements"). The Corporation intends, based on the results of its studies, to select the appropriate regulatory approval route that it will pursue for any product which it may develop for the treatment of restenosis.

Hip Implants

One of the leading complications associated with hip implants is the eventual loosening of the implant which results in inflammation and pain. In most of these cases, the hip implant is removed and replaced. A potential reason for the increased loosening may be the result of the soft fibrous tissue laid down between the implant and bone following hip replacement surgery. Agents that reduce the formation of soft tissue in response to injury associated with hip

implantation may allow for the development of a tighter seal between bone and the hip implant, thereby reducing complications such as hip loosening. Transition's peptides have been shown to reduce tissue fibrosis in response to diseases and injuries and may also reduce soft tissue formation in bone. Using animal models, the Corporation intends to examine the effect of Transition's peptides in the reduction of soft tissue formation associated with hip implants.

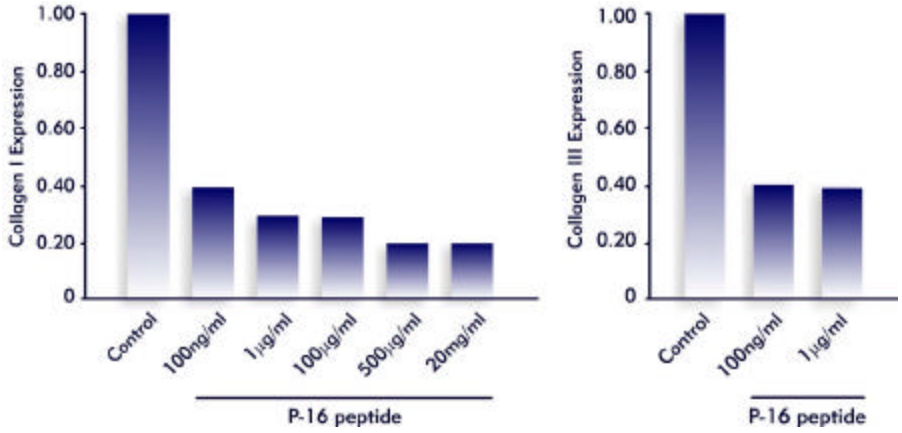
Topical Treatments Program

According to the United States Center for Disease Control and Prevention, there are more than 28 million surgeries and over 600,000 serious burns in the United States each year. Accordingly, there is a need for the development of products that inhibit scar tissue formation resulting from surgical incisions and burns. Wound healing involves a complex series of cellular and inflammatory processes that result in the deposition of connective tissue and its remodelling into abnormal or scar tissue. In humans, healing responses following surgical incisions, wounds and burns often lead to tissue fibrosis and contraction, commonly referred to as scarring. The Corporation intends to develop a topical formulation for the prevention of scars following surgical incisions.

Scar prevention

RHAMM is expressed in skin immediately following wounding and is present until healing is near completion. The Corporation has found, based on animal studies, that treatment of surgical wounds with its P-16 peptide or other variations of its peptides results in a decrease in collagen I and III expression, which is used as a marker for scarring (Figure 10). Further, Transition's peptide treatment reduced macrophage infiltration into the wound resulting in decreased tissue contraction. The broad range of effects on inflammatory diseases, combined with the inhibition of these processes indicates that the Corporation's peptides may be useful for the treatment of scarring in response to incisions, burns or wounding.

Figure 10: Effect of P-16 peptide on collagen I and III expression *in vivo* 24 hrs post-wounding



The Corporation is currently working to develop a topical gel formulation for use in the prevention of scarring that results from cosmetic surgery by performing stability studies of Transition's P-16 peptide in different gel formulations. Once such studies have been completed, which is anticipated to occur in 2001, the Corporation will perform an efficacy and toxicity study of the topical gel formulation in animal models, which the Corporation expects to form the basis for an IND submission.

Product Marketing Strategy

The markets for the products being developed by the Corporation may be large and may require substantial sales and marketing capability. Before or upon successful completion of the development of the Corporation's various products, the Corporation intends to enter into one or more strategic partnerships or other collaborative arrangements with pharmaceutical or other companies that have marketing and distribution expertise to address this need. If appropriate, the Corporation will establish arrangements with various partners for different geographical areas.

Manufacturing

The Corporation has employed a manufacturer for the production of peptide products for its animal toxicology material. The products are to be produced in compliance with Good Manufacturing Practices as established by applicable regulatory authorities, and the manufacturer is responsible for ensuring biosafety testing. The production of recombinant proteins or large proteins (consisting of greater than 35-40 amino acids) will be performed in collaboration with Cangene Corporation ("Cangene"). The peptides will be produced in conditions akin to those prescribed by the standards of Good Manufacturing Practices for preclinical studies by the Corporation's scientists and contracted to Cangene for the production of peptides produced in accordance with the standards of Good Manufacturing Practices for human clinical trials.

Facilities

The Corporation currently maintains its principal and registered office at Suite 1103, 415 Yonge Street, Toronto, Ontario. The lease for this approximately 3,698 square foot office facility is held by Transition's wholly-owned subsidiary, Transition Therapeutics Leaseholds Inc., and is the subsidiary's only asset.

Transition has an oral agreement with Canadian Arthritis Network ("CAN") which it is in the process of formalizing whereby Transition has access to the laboratory facilities maintained by CAN at Mount Sinai Hospital. In connection with this agreement, Transition has issued 162,824 Common Shares to CAN and is also obligated to make certain semi-annual payments to CAN. Dr. Tony Cruz, who is a director, President and Chief Executive Officer of Transition and also a principal shareholder of Transition, is also a director and senior officer of CAN.

Finally, Transition is in the process of negotiating a sub-lease with Cangene in respect of a 714 square foot facility in Mississauga which Transition intends to use for the purpose of peptide manufacturing.

Employees

The Corporation believes that investing in human capital is fundamental to its growth and success. The Corporation depends on its people for constant innovation and research and development. The Corporation intends to implement a practice of aggressively recruiting high calibre personnel and retaining such personnel by offering appropriate compensation incentives.

As at December 21, 2000, the Corporation had five full-time employees and three consultants. The Corporation's success will be dependent to a large degree on its ability to retain the services of its existing senior officers and to retain additional qualified senior officers and key personnel in the future. None of the employees of the Corporation is subject to collective bargaining agreements or is represented by a union. The Corporation considers its relations with its employees to be good.

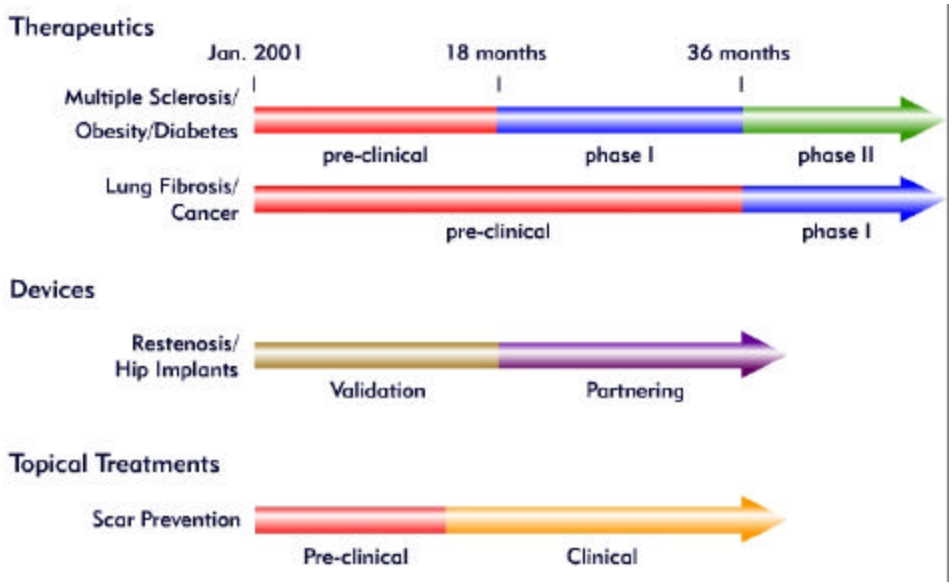
STAGES OF DEVELOPMENT OF TRANSITION'S PRODUCTS

Therapeutic Agents as the Basis of Product Development

The Corporation expects that its peptides and antibodies which inhibit disease processes will form the underlying basis of the Corporation's future products and product candidates. However, to date, all of the Corporation's peptides and antibodies are in the research and development, formulation and pre-clinical testing stages of development. As such, references to the Corporation's "products" or "product candidates" refer to potential future products which may be developed by Transition based upon the Corporation's peptides or antibodies. See "Risk Factors".

Timelines For Development

Under Transition's Therapeutics Program, Transition intends to focus on the development of its therapeutic products for the treatment of MS, diabetes and obesity. Transition expects to complete its pre-clinical studies, and initiate phase I clinical studies, in each of the foregoing areas within the next 18 to 36 months. Transition also intends to continue the development of therapeutic products for the treatment of cancer and lung inflammatory diseases over the next 36 months, eventually working towards an IND submission, and plans to seek one or more pharmaceutical partners to either license or co-develop these products.



Under Transition's Device and Topical Treatments Program, Transition intends to focus on the development of treatments for restenosis and hip implant loosening. The validation and pre-clinical studies using Transition's products for the treatment of restenosis and hip implant loosening are expected to be completed within a period of 18 months. Transition plans to seek a stent or hip implant manufacturer as a corporate partner to develop these products. Transition is also currently developing a topical gel formulation for the treatment of scars resulting from surgical incisions and burns. The Corporation believes that pre-clinical studies of the topical gel formulation will be completed over a 12 month period and that clinical studies and the regulatory approval process through the device regulatory approval route will require no less than an additional 24 months.

While the foregoing describes Transition's anticipated timelines for the development of products for the treatment of diseases and other medical complications in each of the Corporation's Therapeutics Program and Device and Topical Treatments Program, these timelines are subject to change as a result of factors beyond the Corporation's

control, such as the results of research studies, the results of pre-clinical trials and the ability of Transition to obtain additional funding and/or partnerships in respect of product development. Accordingly, these timelines may be subject to substantial deviation. Furthermore, there is no assurance that Transition's research and development will result in any commercially viable product. See "Risk Factors".

COMPETITION

Therapeutics Program

There are a number of treatments in various stages of development which may compete with Transition's Therapeutics Program in each of its selected therapeutic disease specific applications. The following is a summary of the principal therapeutic treatments which the Corporation understands are currently being developed by others for each therapeutic area in which the Corporation is currently focussing its efforts and is not necessarily an exhaustive list of such competing therapeutic treatments. Competition may have an adverse effect on the Corporation. See "Risk Factors – Competition". The Corporation believes that Transition's peptides are comparable to existing therapies but may have reduced toxicity effects.

Multiple Sclerosis (MS)

According to various market reports, over 90% of the MS therapeutics market relates to polypeptide therapies. The focus has been on immunomodulators that act to modify the immune system and suppress disease activity associated with MS. In addition, there are a number of drugs currently undergoing clinical trials, such as Micellar Paclitaxel and anti-TNF antibody therapies, that are showing potential disease modifying capabilities which might reduce MS progression.

Diabetes

There are a number of therapeutic approaches for the treatment of diabetes such as (i) the prevention of Type I diabetes through immune system suppression using immunosuppressants to prevent further destruction of the insulin producing cells, (ii) pancreas transplantation that involves the transplantation of a "new" pancreas, usually done in conjunction with kidney transplantation, and (iii) islet cell transplantation that involves implantation of purified islet cells from humans or pigs into the diabetic patient's pancreas.

Obesity

There are a number of approaches to treat obesity that focus on inhibiting food consumption or fat intake. These include (i) dietary suppressants that control appetite by enhancing the feeling of fullness, (ii) lipase inhibitors that act on the gastrointestinal tract to prevent the absorption of fat, and (iii) weight loss surgery that is considered a "last resort" for the intervention of weight loss complications affecting individuals due to severe obesity.

Other Therapeutic Programs

Cancer

There are a number of different approaches to the development of therapeutics for the treatment of cancer that are currently being studied. These approaches include (i) radiation therapy that attacks cancerous cells but does not distinguish between healthy and diseased cells, (ii) chemotherapy which works by preventing a cancerous cell from dividing or by killing cells that divide, (iii) immunotherapy which stimulates the body's immune system to respond to the disease, (iv) hormone therapy which may slow the growth of cancer cells or even kill them, and (v) surgery to excise the cancerous tissue. Curative surgery is currently the primary treatment for cancer.

Lung Inflammatory Diseases

There are a number of therapeutic agents used for the treatment of lung inflammatory diseases, such as (i) corticosteroids which are inhaled to reduce lung inflammation and facilitate breathing, (ii) leukotriene receptor antagonists/anti-leukotrienes that attempt to inhibit the inflammatory reaction that causes asthma symptoms, and

(iii) bronchiodilators to treat chronic obstructive lung disease by relaxing the lung muscles in order to increase air intake into the lungs.

Device and Topical Treatments Program

There currently exist certain treatments that are in various stages of development which may potentially compete with Transition's areas of focus in relation to its Device and Topical Treatments Program.

Restenosis

There are a number of major manufacturers of stents for a number of different applications. Stents are tiny scaffold-like cylinders that are inserted into the vessel to keep it propped open and are sometimes coated with therapeutic anti-proliferative agents. Another therapy for restenosis involves radiation therapy that can prevent the re-narrowing of arteries by reducing the re-growth of tissue within the stents. The drug coated stents have shown promise in clinical trials.

Hip Implants

The Corporation is unaware of any competition in the area of the remediation of loosened hip implants other than the surgical replacement of the loosened hip implant.

Topical Treatments

A number of products are used for the treatment of wounding, such as hydrogels, collagen gels, hydrocolloids, foam dressings and alginates, that reduce infection and promote wound closing. Other agents are also currently being examined for their ability to reduce existing scars by preventing collagen cross-linking in tissue.

REGULATORY REQUIREMENTS

Regulatory Approval Process for Therapeutic Drugs

The development of new pharmaceuticals is strongly influenced by a country's regulatory environment. The drug approval process in Canada is regulated by Health Canada. In the United States, the primary regulatory body is the Food and Drug Administration (the "FDA"). Similar processes are conducted in other countries by equivalent regulatory bodies. Regulations in each jurisdiction require that licenses be obtained from regulatory agencies for drug manufacturing facilities and also mandate strict research and product testing standards in order to ensure quality in respect of the manufacturing of therapeutic products ("Good Manufacturing Practices"). Companies must establish the safety and efficacy of their products, comply with Good Manufacturing Practices and submit marketing strategies before being allowed to market pharmaceutical products. While the Corporation will pursue the approval of any product that it develops, success in acquiring regulatory approval for any such product is not assured. See "Risk Factors – Regulatory Environment".

In order to market its pharmaceutical products in Canada and the United States, the Corporation must successfully satisfy the requirements of each of the following stages of the regulatory approval process:

(i) ***Pre-Clinical Studies*** - Pre-Clinical studies involve extensive testing on laboratory animals in order to determine if a potential therapeutic product has utility or any adverse toxic effects in an *in vivo* disease model.

(ii) ***Phase I Clinical Trials*** – Phase I clinical trials are pre-pharmacological studies designed to assess the potential harmful or other side effects that a human receiving a therapeutic drug may experience. These studies, usually short in duration, are typically conducted with healthy volunteers or actual patients and use up to the maximum expected therapeutic dose.

(iii) ***Phase II and III Clinical Trials*** - Phase II and III clinical trials are therapeutic studies which are designed primarily to determine the appropriate manner for administering a drug in order to produce a prophylactic action or a significant beneficial effect against a disease process. These studies are conducted using actual patients that have the condition which the therapeutic agent is designed to remedy.

Prior to initiating these studies, the organization sponsoring the program is required to satisfy a number of requirements via the submission of documentation to support the approval for a clinical trial.

An IND submission must be submitted to Health Canada or the FDA in the United States prior to conducting a Phase I clinical trial. After all three phases of clinical trials have been completed, the results are then submitted with the original IND submission to Health Canada or the FDA for marketing approval in the respective countries. If and when marketing approval is granted by Health Canada or the FDA, the product is then approved for commercial sales in Canada and the United States, respectively.

In addition to the approval of the drug itself, Health Canada and the FDA each require that the manufacturer of a therapeutic drug be in full compliance with the current Good Manufacturing Practices in effect in Canada and the United States, respectively. A similar process for therapeutic drug approval is followed in other countries.

Regulatory Requirements for Devices

Regulatory requirements for the approval of a medical device include the submission of proof of the device's safety and efficacy. This proof is generally derived from extensive pre-clinical, clinical and laboratory tests. Prospective manufacturers are also required to conform to current Good Manufacturing Practices prescribed by the Canadian Therapeutic Products Directorate (the "TPD") and the FDA in the United States. Manufacturers must file with the TPD or FDA all information regarding the safety, efficacy and labelling of medical devices.

In Canada the TPD regulates the sale of medical devices. Medical devices are categorized into four classes (I to IV) where Class I represents the lowest risk and Class IV represents the highest risk. In addition, the filing and reporting requirements required by the TPD are rigorous and time consuming.

In the United States, medical devices are classified into three categories based on their route of evaluation for ensuring safety and effectiveness. Class I devices are those whose safety and effectiveness can reasonably be ensured through general controls such as labelling, pre-market notification and adherence to Good Manufacturing Practices. Class II devices are those whose safety and effectiveness can be reasonably ensured through the use of special controls such as post-market surveillance, performance standards and patient registries. Class III medical devices are those that have received Pre-market Approval ("PMA") by the FDA or for which the FDA has made a finding of substantial equivalence based upon a 510(k) application to ensure safety and efficacy. These products are usually life sustaining, life supporting and implantable devices. Before a new device can be introduced to market, the manufacturer is usually required to obtain FDA approval under a 510(k) application or a PMA application. It generally takes from 6 to 12 months for the FDA to respond to such application. If the FDA requires a PMA for a device, then a PMA application must be submitted. The PMA application requires at least two independent, statistically significant clinical trials which must demonstrate the efficacy and safety of the device in order to obtain approval by the FDA. An Investigational Device Exemption application would typically be filed and approved prior to the commencement of clinical trials.

FEASIBILITY REPORT

BioCatalyst Yorkton Inc. ("BioCatalyst") was engaged by the Corporation to prepare a technical report in respect of the business of the Corporation. BioCatalyst is a biotechnology management company with a primary focus on the development of original research towards commercialization. BioCatalyst has not, directly or indirectly, received property or any securities of the Corporation or of any associate or affiliate of the Corporation. A report dated December 15, 2000 was prepared containing an overview and analysis of the feasibility of the business of the Corporation (the

"Feasibility Report"). The Feasibility Report was prepared on the basis of documents supplied by the Corporation to BioCatalyst, and an independent analysis based on the reports of public companies, papers published in the scientific literature and issued patents or patent applications.

Upon completion of its review, BioCatalyst determined that Transition is an early stage company, with a significant portfolio of products in various stages of pre-clinical development. BioCatalyst concluded that the challenges, as Transition moves toward the clinic will likely be numerous and its primary challenge will be its ability to raise sufficient capital to enable the Corporation to manage all of the products in development. BioCatalyst further concluded that this challenge will be reduced in importance if positive results arise from clinical investigations. The report indicates that there is scientific evidence to support the products in the research plan and that there is experimental evidence to support the feasibility of Transition developing commercially viable products. BioCatalyst referenced that the financial plan of the Corporation appears to be in order for a company at Transition's stage of development and that success of the scientific plan will depend, in part, on the Corporation's future access to capital.

BUSINESS STRATEGY

Transition's goal is to establish itself as a leader in the development and commercialization of therapeutic treatments that target the prevention and progression of inflammatory and fibrotic diseases and complications associated with devices, but without toxicity. The Corporation's business strategy is based on the key elements outlined below:

- Develop therapeutic, device and topical treatment products by initiating toxicology and manufacturing programs and bring the products into a clinical setting to assess their safety and efficacy in human subjects.

- Continue to identify other clinical applications through *in vitro* and *in vivo* pre-clinical research undertaken by the Corporation and in conjunction with research collaborations.

- Broaden Transition's technology, and its therapeutic pipeline, in its core therapeutic and device and topical treatment areas.

- Establish collaborations with experts to assist the Corporation with scientific and clinical developments of new products. Implement strategic alliances with selected pharmaceutical and biotechnology companies where such alliances may complement and expand the Corporation's research and development efforts and provide sales and marketing capabilities.

The Corporation's business strategy is based on attaining a number of commercial objectives which in turn are supported by a number of product development goals. The development of new products presently being conducted by the Corporation is primarily in the nature of research and development, formulation and pre-clinical stages of development.

At this time, the Corporation does not intend to become a fully integrated biopharmaceutical company with substantial in-house research and development, marketing or manufacturing capabilities. The Corporation is pursuing a strategy of establishing relationships with larger companies as strategic partners. The Corporation intends to partner or joint venture with larger pharmaceutical companies or other companies that have existing and relevant marketing capabilities. It is anticipated that future clinical development of the Corporation's product candidates outside of Canada would generally occur in conjunction with a strategic partner or partners, who would contribute expertise and financial assistance in respect of such development. In exchange for certain product rights and commitments to market the Corporation's product candidates, the strategic partners would be expected to share in gross proceeds from the sale of the Corporation's products. The proceeds generated from partnering or joint venturing projects are expected to be distributed on the basis of relative risk taken and resources contributed by each party to the partnership or joint venture. See "Risk Factors".

RESEARCH COLLABORATIONS

Third Party Advisors, Collaborators and Consultants

Transition has entered into research and development collaborations with several universities and research institutions. The relationships provide the Corporation with a network of scientists that contribute substantial research resources to studying the technology of the Corporation in relation to its numerous potential applications. The following is a brief description of some of these relationships:

1. **Eva Turley, Ph.D.** Dr. Turley is a Senior Scientist at the London Regional Cancer Center and a Professor at the University of Toronto. Her laboratory pioneered and is internationally recognized for its contribution to the understanding of how hyaladherins signal cell motility. She cloned and characterized RHAMM and identified the ability of RHAMM reagents to inhibit disease. Dr. Turley is a co-founder of Transition, was an officer and director of the Corporation, and holds a substantial number of Common Shares. See "Principal Shareholders".

2. **Mario Moscarello, M.D., Ph.D.** Dr. Moscarello is a Senior Scientist at the Hospital for Sick Children and a Professor at the University of Toronto. He is an expert in the mechanisms involved in demyelinating diseases such as MS.

3. **David Hart, Ph.D.** Dr. Hart is the Department Head of Microbiology and Infectious Disease at the University of Calgary, a Professor of Microbiology and Infectious Disease and Medicine at the University of Calgary and a Professor in Arthritis Research at the McCaig Centre for Joint Injury and Arthritis Research. He is one of the founders and a board member of BRM-Biotech, Ltd. and a founder of Calbiotronix, Inc., both operating out of the University of Calgary.

4. **Robin Poole, Ph.D.** Dr. Poole is Head of the Joint Diseases Laboratory at the Shriners Hospital for Children and a Professor at McGill University in Montreal. Dr. Poole has expertise in arthritis and other inflammatory diseases.

5. **Michelle Bendeck, Ph.D.** Dr. Bendeck is an Assistant Professor in the Department of Laboratory Medicine and Pathobiology in the Faculty of Medicine at the University of Toronto. A primary focus of her work is studying restenosis.

6. **Kim Woodhouse, Ph.D.** Dr. Woodhouse is an Assistant Professor in the Department of Chemical Engineering and Applied Chemistry at the University of Toronto. Dr. Woodhouse is cross-appointed to the Faculty of Management at the University of Toronto. Dr. Woodhouse has expertise in bio-materials and local delivery systems.

7. **Bradley Strauss, M.D.** Dr. Strauss is the Director of Interventional Cardiology and an Associate Professor of Medicine in the Division of Cardiology at the University of Toronto and St. Michael's Hospital in Toronto. Dr. Strauss' interest is in restenosis after balloon angioplasty and stenting.

8. **Marc Grynpas, Ph.D.** Dr. Grynpas is a Professor at the Department of Pathology and Laboratory Medicine at Mount Sinai Hospital. The main focus of Dr. Grynpas' work is studying the mechanisms of mineral deposition, maturation and resorption, as well as the effects of agents that affect bone quality.

Strategic Alliances

The Corporation has entered into a strategic alliance with Cangene which, among other things, provides for collaborative research and development efforts between Cangene and Transition in the areas of tissue wound healing and cancer treatment. See "Intellectual Property – Agreements Related to Intellectual Property – Agreement with Cangene Corporation".

The Corporation intends to continue to pursue strategic alliances with pharmaceutical and biotechnology companies to assist with research and development related to the Corporation's platform technology and also, where appropriate, to manufacture, market and distribute its products once developed.

INTELLECTUAL PROPERTY

Intellectual Property Policy

All potentially valuable intellectual property is identified by the originator, and classified by the Corporation in terms of its sensitivity. For material which could lead to new patents, all documentation related to the intellectual property is protected and kept in secure areas. All employees execute agreements containing confidentiality clauses and assign any new intellectual property to the Corporation.

Where appropriate, and consistent with management's objective, patents are pursued as soon as the concepts have been validated through appropriate laboratory work. To that end, patents will continue to be sought in relation to those components or concepts that management of the Corporation perceives to be essential.

The Corporation believes that one of the best intellectual property control policies is a strong human resources policy to ensure that technical leaders with access to proprietary intellectual property do not consider leaving the Corporation for other employment. The Corporation intends for all staff to be compensated through competitive salaries and for all staff to participate in the Corporation's stock option plan. See "Stock Options".

Where a patent is filed in the United States, there is an option to file a Patent Cooperation Treaty ("PCT") application. The PCT application process is a means for technology patented in one of the PCT signatory countries to receive protection in other PCT countries. The PCT includes over 100 countries. Within one year of filing a patent in the United States, the applicant may file for PCT coverage in all designated PCT countries. Approximately 18 months after the PCT priority date, the applicant must pay individual filing fees in designated PCT countries and at that time the applicant may wish to restrict coverage to a subset of countries which have potential for the technology. At the time of filing the PCT application, the applicant designates which of the member countries are to be covered by the application. The PCT application allows the applicant to defer national filings in the various designated countries for a period of up to 30 months from the PCT application priority date. After the PCT application deferral period, the applicant must file for separate national or regional patents in one or more designated countries, depending on which specific markets the applicant intends to target.

Patent Application Summary

The following patent applications have been filed in respect of Transition's platform technology:

Patent Application No.	Title	Owned/ Licensed	Status	Filing Date
US 08/318,892[(1)]	Hyaluronan Receptor (RHAMM – Receptor for Hyaluronan Mediated Motility) and Hyaluronan Binding Peptides	Licensed	Pending	Dec. 1, 1994
PCT/CA97/00240[(2)]	Human Hyaluronan Receptor (RHAMM – Receptor for Hyaluronan Mediated Motility) and Hyaluronan Binding Peptides	Licensed	Pending	Apr. 10, 1997
EP 95307310[(3)]	Hyaluronic Acid Mediated Mobility Reception (RHAMM)	Licensed	Pending	Oct. 16, 1995
US 09/210,896[(4)]	Enhanced Affinity Hyaluronan Binding Peptides	Licensed	Pending	Dec. 16, 1998

Patent Application No.	Title	Owned/ Licensed	Status	Filing Date
US 09/541,522[5]	Compositions and Methods for Treating Cellular Response to Injury and other Proliferating Cell Disorders Regulated by Hyaladherin and Hyaluronans	Licensed	Pending	Apr. 3, 2000
US 09/685,010[5]	Compositions and Methods for Treating Cellular Response to Injury and other Proliferating Cell Disorders Regulated by Hyaladherin and Hyaluronans	Licensed	Pending	Oct. 10, 2000

(1) United States patent application US 08/318,892 (also filed as Canadian patent application 2,117,747 and European patent application 93907733.5), derived from PCT patent application No. PCT/CA93/00158 which was published as WO 9321312, claims priority from United Kingdom informal patent application 9207949.0 filed April 9, 1992. The European patent application designates all member countries with the exception of Monaco and Luxembourg.

(2) PCT/CA97/00240 is a PCT patent application that was published as WO 97/38098 claiming priority from United Kingdom informal patent application 9607441.4 filed on April 10, 1996. This PCT application has been filed as Japanese patent application 535705/1997, European patent application 9791231.1 (which designates all European countries), United States patent application 09/169,077 and Canadian patent application 2,251,264.

(3) EP 95307310, published as EP 721,012(A2) claims priority from United Kingdom informal patent application 9420740 filed on October 14, 1994. Equivalent patent applications are United States patent application 08/477,831, Canadian patent application 2,160,603 and European patent application 95307310.3 which designates all European member countries.

(4) United States patent application US 09/210,896, filed on December 16, 1998, claims priority from United States provisional patent application 60/068,285 which was filed on December 19, 1997. It has also been filed as Canadian patent application 2,237,051 and European patent application 98310454.8. The European patent application designates the United Kingdom, France, Germany, Spain and the Netherlands.

(5) United States continuation-in-part patent application 09/685,010, filed October 5, 2000, claims priority from United States utility patent application no. 09/541,522, filed April 3, 2000, which application claims the benefit of United States provisional patent application US 60/127,457 filed on April 1, 1999. PCT application PCT/IB00/01534, filed October 5, 2000, does not claim priority to any of these United States patent applications. All of these patent applications are entitled "Compositions and Methods for Treating Cellular Response to Injury and Other Proliferating Cell Disorders Regulated by Hyaladherin and Hyaluronans".

Transition has submitted a United States patent application US 09/541,522 and United States continuation-in-part patent application US 09/685,010 (collectively, the "Transition Patent Applications") relating to its platform technology that identifies the process by which cells evolve to a diseased state and the application of RHAMM peptides and antibodies for the treatment of inflammatory and degenerative diseases. Transition is also aggressively licensing technologies related to transitional molecules in order to protect and expand its platform technology. Transition has licensed three patents applications, US 08/318,892, PCT/CA97/00240 and EP 95307310 (collectively, the "University of Manitoba Patent Applications") that protect human RHAMM protein, DNA sequences and antibodies, from the University of Manitoba indirectly through a sublicense agreement with Cangene, as well as having licensed a patent application from Cangene, US 09/210,896 (the "Cangene Patent Application") which patent application protects RHAMM peptide mimetics for use in wound healing and cancer. The license agreements are described below under the heading "Intellectual Property – Agreements Related to Intellectual Property".

Agreements Related to Intellectual Property

The Corporation has entered into various agreements whereby it has acquired licensed rights to certain technology pursuant to pending patent applications.

Agreements Related to the Transition Patent Application

An integral component of Transition's platform technology is based upon the technology contained in the Transition Patent Application, which technology was founded by Dr. Tony Cruz in his capacity as a researcher for Mount Sinai Hospital ("Mount Sinai"), Dr. Eva Turley in her capacity as a researcher for The Hospital for Sick Children ("HSC")

and Dr. Robin Poole in his capacity as a researcher for Shriners Hospitals for Children ("Shriners"). In respect of the respective contributions of each of Dr. Eva Turley, Dr. Tony Cruz and Dr. Robin Poole to the development of such technology, Transition has (i) been granted a licence to such patent application from HSC Research and Development Limited Partnership ("HSC LP") on behalf of HSC, (ii) entered into a letter of intent with Mount Sinai in respect of licensing the Transition Patent Application, and (iii) received a waiver from Shriners.

Agreement with The Hospital for Sick Children

Dr. Eva Turley assigned her interest in the Transition Patent Application to HSC which then assigned its interest therein to HSC LP. Transition has subsequently acquired, pursuant to a license agreement with HSC LP dated November 5, 1999, a sole, worldwide license to develop, market and sell products arising from the Transition Patent Application. Transition is obligated to assume the patent application expenses. Transition is also obligated to pay HSC LP various fees upon certain milestones being achieved in relation to the development of products arising from the Transition Patent Application, along with an annual license fee. HSC LP has also reserved the right to use and exploit in its own name the Transition Patent Application.

The agreement between Transition and HSC LP will terminate upon the expiration of the Transition Patent Application or HSC LP may, among other things, terminate the license immediately (i) upon an assignment or attempted assignment of the agreement by Transition without the prior consent of HSC LP, (ii) if, among other things, Transition makes an assignment for the benefit of creditors or commits any act of bankruptcy or is adjudged bankrupt or insolvent, (iii) if Transition is in default of certain obligations to HSC LP, or (iv) if Transition is in default of certain other obligations to HSC LP which default has not been cured within certain prescribed timelines.

Letter of Intent with Mount Sinai Hospital

Dr. Tony Cruz, one of the co-founders of Transition's platform technology, assigned all rights to his contribution to the Transition Patent Application to Mount Sinai. Mount Sinai, pursuant to a letter of intent dated December 20, 1999, has agreed to grant to Transition an exclusive, worldwide license to such patent application, with payments to be no greater than 25% of the fees payable to HSC LP (which fees are prescribed by the agreement between HSC LP and Transition described above under the heading "Intellectual Property - Agreements Related to Intellectual Property - Agreement with The Hospital For Sick Children").

Waiver of Shriners Hospitals for Children

Pursuant to a letter dated January 7, 2000, Shriners waived its right in the Transition Patent Application in respect of any contribution to such patent application by its researcher Dr. Robin Poole.

Agreement with Cangene Corporation

Cangene has sublicensed to Transition the University of Manitoba Patent Applications (in respect of which Cangene has represented to Transition that it has obtained a sole, worldwide license from the University of Manitoba, which institution has reserved the right to use the Manitoba Patent Applications for research and education purposes) and the Cangene Patent Application pursuant to a sole, worldwide, royalty-bearing license agreement between Transition and Cangene dated January 20, 2000 (the "Cangene Agreement") for all uses relevant to the Corporation. The Cangene Agreement also provides that Transition will license to Cangene on an exclusive, worldwide, royalty-bearing basis, the Transition Patent Application for uses in tissue wound healing and cancer treatment. The granting of licenses as contemplated by the Cangene Agreement is subject to the following, among other, conditions:

(i) Transition and Cangene will jointly research and develop products for tissue wound healing and each party will provide up to $1 million over the first two years of the Cangene Agreement with each party contributing equal amounts and equally sharing profits;

(ii) Transition will provide an additional $400,000 within two years from the date of the Cangene Agreement for tissue wound healing research; and

(iii) Transition and Cangene will develop product and processes for cancer treatment with each party providing up to $500,000 over the first 2.5 years after the date of the Cangene Agreement and with each party contributing equal amounts and sharing profits equally.

The Cangene Agreement provides that Transition is obligated to make certain payments to Cangene upon the achievement of certain product development milestones as specified therein, and Transition is also to pay Cangene royalties ranging from 1% - 1.5% of net sales of products based on the patent applications licensed to Transition. Transition is responsible for paying 50% of the costs associated with the patent applications licensed to it pursuant to the Cangene Agreement. Neither party can further sublicense the technology or patent applications for use in tissue wound healing or cancer treatment without the written approval of the other party.

Cangene is obligated to pay Transition 1% of the net sales of peptide products related to the technology licensed from Transition which is sold by Cangene for uses other than applications in tissue wound healing and cancer treatment.

If the sum of royalties and/or net profits paid to Cangene as resulting from the sale of a product derived from the patent applications licensed to Transition does not meet certain minimum requirements (as specified in the Cangene Agreement) during the first and subsequent years of the commercialization of any such product, Cangene may either terminate the Cangene Agreement or may cause the license granted thereby to Transition to become non-exclusive for the remaining period of such agreement.

The Cangene Agreement also provides that Cangene will have a first right of refusal to manufacture and/or formulate peptides for use in tissue wound healing and cancer treatment at a price to be agreed upon by Transition and Cangene. Cangene also has been granted a first right of refusal to manufacture and formulate peptides for uses other than tissue wound healing and cancer treatment. Transition has the option of terminating the right to manufacture by paying Cangene $150,000 in three equal payments over three years beginning from the start date of the first Phase I clinical study initiated in relation to a peptide used for applications other than tissue wound healing and cancer treatment.

Since the signing of the Cangene Agreement on January 20, 2000, Dr. John Langstaff, who is the President and Chief Executive Officer of Cangene, has also become a director of Transition effective October 20, 2000.

Agreement with Shriners Hospitals for Children

Shriners holds certain patent applications in respect of diagnostic technology, materials and methods as outlined in United States patent application No. 08/448,501 entitled “An Immunoassay for the Measurement of Collagen Cleavage in Cartilage” (the “Shriners Patent Application”). Pursuant to a June 30, 1999 agreement with Shriners (the “Shriners Agreement”), Transition obtained an exclusive, worldwide, royalty-bearing license to the technology contained in the Shriners Patent Application. The agreement provides that Transition is responsible for paying 100% of all past and future costs of filing and prosecuting patent applications in respect of the Shriners Patent Application. Transition has the right to further license or sublicense or develop, manufacture, market, sell and distribute the technology contained in the Shriners Patent Application. Transition is required to pay Shriners certain amounts based on the achievement of certain milestones outlined in the Shriners Agreement, along with a royalty equal to 1% of net sales of such technology or products arising therefrom. The license is effective for the duration of the Shriners Patent Application or it may be terminated by Shriners if, among other things, Transition is in default of any of its obligations under the Shriners Agreement and which default is not remedied within certain timelines. This diagnostic technology was further sublicensed by Transition to HDM Diagnostics & Imaging Inc. (“HDM”).

Transition, pursuant to an agreement with HDM dated July 1, 1999, assigned to HDM its rights under the Shriners Agreement to the Shriners Patent Application. Dr. Tony Cruz, who is a Director, President and Chief Executive Officer, and also a principal shareholder of Transition, is also a director and senior officer of HDM and controls HDM.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations of the Corporation for the three months ended September 30, 2000 and 1999, the fiscal year ended June 30, 2000 and the period from July 6, 1998 to June 30, 1999, should be read in conjunction with the consolidated financial statements of the Corporation and related notes commencing at page F-1 of this prospectus. The selected financial information is derived from audited and unaudited consolidated statements of loss and deficit of the company.

Selected Consolidated Financial Information

	Three Months Ended September 30		Years Ended June 30	
	2000	**1999**	**2000**	**1999**
	(unaudited)	(unaudited)		
Revenues:				
License revenue	$ –	$ –	$ 58,021	$ –
Collaboration revenue	24,291	–	64,528	–
	24,291	–	122,549	–
Expenses:				
Research and development, net	109,328	16,667	303,083	35,266
General and administrative	116,035	7,038	302,005	9,118
Amortization	6,738	–	5,285	–
Loss before the undernoted items:	(207,810)	(23,705)	(487,824)	(44,384)
Interest income (expense)	(1,115)	–	2,302	98
Net loss for the period	$ (208,925)	$ (23,705)	$ (485,522)	$ (44,286)

Overview

The Corporation was incorporated on July 6, 1998 and is still in the development stage. The Corporation has not been profitable since its inception and expects to incur substantial losses in continuing the research and development of its products. The Corporation does not expect to generate significant revenues until its products become commercially viable. The Corporation has not developed any marketing or distribution networks for its products. Should Transition's products become commercially viable, the Corporation will seek marketing alliances where necessary. See "Business Strategy". As of September 30, 2000, the Corporation has incurred a cumulative deficit of $738,773. However, through funding and financing arrangements, the Corporation had, as of September 30, 2000 cash on hand in the amount of $85,105 available to fund its research and development programs and, on October 20, 2000, received net proceeds of $4.9 million by way of private placement of the Special Warrants. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources".

The Corporation incurs a variety of expenses in carrying out its research and development programs. In order to minimize its overhead expenses, the Corporation conducts research and development work through various third parties engaged from time to time on a contractual basis. See "Research Collaborations – Third Party Advisors, Collaborators and Consultants". Payments in the amount of $303,083 for research and development programs represent approximately 49.7% of the Corporation's total net expenditures of $610,373 during the fiscal year ended June 30, 2000.

Three months ended September 30, 2000 compared with the three months ended September 30, 1999

Revenue

Revenue generated in the three months ended September 30, 2000 was $24,291 compared to no revenue for the three months ended September 30, 1999. This revenue received was attributable to the Corporation's collaborative

research agreement with Cangene as a reimbursement of certain expenses related to collaborative research and development programs.

General and Administrative Expenses

General and administrative expenses of $116,035 for the three months ended September 30, 2000 increased from $7,038 for the three months ended September 30, 1999. The majority of the increase in expenses were start up and salary related, as the Corporation increased its headcount from one employee during the entire three month period ended September 30, 1999 to a total headcount of eight, five full time employees and three consultants, for the three months ended September 30, 2000.

Research and Development Expenses

Research and development expenses totalled $109,328 for the three months ended September 30, 2000 compared with $16,667 for the three months ended September 30, 1999. The increase in expenses resulted from an increase in research and development activities associated with the Corporation's therapeutic programs in multiple sclerosis and diabetes.

Net Loss

The net loss for the three months ended September 30, 2000 was $208,925 compared with a net loss of $23,705 for the three months ended September 30, 1999. The increase in the net loss resulted primarily from increased research and development activities and usual infrastructure costs associated with a research and development company of Transition's size. The total deficit at September 30, 2000 was $738,733 compared to a total deficit of $67,991 at September 30, 1999.

Fiscal year ended June 30, 2000 compared with the fiscal year ended June 30, 1999

Revenue

For the fiscal year ended June 30, 2000, the Corporation generated revenue of $122,549 compared to no revenue for the fiscal year ended June 30, 1999. The revenue received in the fiscal year ended June 30, 2000 was attributable to the Corporation's collaborative research agreement with Cangene as reimbursement of certain expenses related to collaborative research and development programs in tissue wound healing (scarring). The additional revenue of $58,021 was generated in consideration of product provided to a pharmaceutical company.

General and Administrative Expenses

General and administrative expenses of $302,005 for the fiscal year ended June 30, 2000 increased from $9,118 for the fiscal year ended June 30, 1999. The majority of the increase in expenses was related to an increased headcount and start-up costs and the purchase of furniture and fixtures associated with the head office located at 415 Yonge Street. The Corporation increased its headcount from one employee for the fiscal year ended June 30, 2000 to a total headcount of eight, five full time employees and three consultants, for the fiscal year ended June 30, 1999, representing $209,173, or 71.4% of the total $292,887 increase in expenses. The other significant general and administrative expense item was patent expenses at $117,939.

Research and Development Expenses

Research and development expenses totalled $303,083 for the fiscal year ended June 30, 2000 compared with $35,266 for the fiscal year ended June 30, 1999. The increase in expenses resulted from patent costs and an increase in research and development activities associated with the validation of the Corporation's technology in animal models in the Therapeutics Program areas of multiple sclerosis, diabetes, obesity, cancer and lung inflammatory diseases and in the Device and Topical Treatments Program areas of restenosis, hip implant loosening and scarring. Patent costs were $117,938 for the fiscal year ended June 30, 2000.

Net Loss

The net loss for the fiscal year ended June 30, 2000 was $485,522 compared with a net loss of $44,286 for the fiscal year ended June 30, 1999. The increase in the loss resulted primarily from increased research and development activities, increased infrastructure costs that were primarily start up related in the areas of headcount, patent expenses and office space typically associated with a research and development company of Transition's size. The total deficit at June 30, 2000 was $485,522 compared to a total deficit of $44,286 at June 30, 1999.

Liquidity and Capital Resources

To date, the Corporation has financed its operations, research and development and capital expenditures primarily through private placements of its securities, investment tax credits and its research collaboration with Cangene. Since inception, the Corporation has received net proceeds of $5.9 million from the sale of equity by way of private financing, including net proceeds of $4.9 million raised on October 20, 2000 by way of private placement of the Special Warrants. See "Private Placement".

At September 30, 2000, the Corporation had cash of $85,105, short-term investments of $40,000, $80,400 of investment tax credits receivable, other receivables of $158,395 and no long-term investments. The Corporation believes that the net proceeds of this Offering, the net proceeds of $4.9 million raised on October 20, 2000, together with its cash and cash equivalents and receivables, should be sufficient to finance Transition's operations and capital needs through fiscal 2002.

DIRECTORS AND OFFICERS

The following table sets forth the name and municipality of residence, the position and senior offices held with the Corporation, as well as the principal occupations held by each of Transition's directors and senior officers during the previous five years.

Name and Municipality of Residence	Position with the Corporation	Principal Occupation
Mr. Louis Alexopoulos ..... Toronto, Ontario	Chief Financial Officer and Secretary	Secretary of the Corporation since January, 1999 and Chief Financial Officer since December, 2000; Barrister and Solicitor at Sotos Associates, a law firm, since 1985.
Mr. Jacques J. Boisvert ..... Montréal, Québec	Director[(1)]	President and Chief Executive Officer of Technilab Pharma Inc., a private pharmaceutical company, since November 1998; prior thereto President and CEO of Novopharm Québec, a private pharmaceutical company, from March 1994 to October 1998.
Dr. Tony F. Cruz ..... Toronto, Ontario	Director, President and Chief Executive Officer	President and Chief Executive Officer of Transition since January, 1999; Senior Scientist at Mount Sinai Hospital since 1995; Program Director of the Canadian Arthritis Foundation since 1998; prior thereto Co-Founder, Vice-President and Director at Angiotech Pharmaceuticals Inc., a public biopharmaceutical company listed on the Toronto Stock Exchange, from June 1993 to July 1998.
Mr. Christopher M. Henley ..... Oakville, Ontario	Director[(1)]	President, Henley Capital Corporation, a private limited market dealer company, since May 1999; prior thereto, Senior Vice-President and Director of Canaccord Capital Corporation, a private investment dealer, from December 1995 to May 1999.

Name and Municipality of Residence	Position with the Corporation	Principal Occupation
Mr. Michael E. Lincoln..... Oakville, Ontario	Vice President, Business Development	Vice-President, Business Development of the Corporation since September 1999; prior thereto Director of Business Development at Altimed Pharmaceutical Co., a private pharmaceutical company, from February 1995 to April 1999.
Dr. John M. Langstaff..... Winnipeg, Manitoba	Director(2)	President and Chief Executive Officer of Cangene Corporation, a public biopharmaceutical company listed on the Toronto Stock Exchange, since November 1995.
Dr. Bala S. Manian..... Palo Alto, California	Director(2)	Chairman and Chief Executive Officer of Empatheon Inc., a private biopharmaceutical company, since 1999; prior thereto Chairman and Chief Executive Officer of Biometric Imaging Inc., a private biopharmaceutical company, from 1992 to 1999.
Dr. Bradley G. Thompson..... Calgary, Alberta	Director(1) (2)	President and Chief Executive Officer of Oncolytics Biotech Inc., a public biopharmaceutical company listed on the Toronto Stock Exchange, since April 1999; prior thereto Executive Chairman, President and Chief Executive Officer of SYNSORB Biotech Inc., a public biopharmaceutical company listed on the Toronto Stock Exchange, from May 1994 to July 1999.

(1) Member of the Corporation's Audit Committee.

(2) Member of the Corporation's Compensation Committee.

SCIENTIFIC ADVISORY BOARD

Transition is in the process of assembling a group of leading physicians and scientists to serve as members of its scientific advisory board ("SAB"). These advisors come from leading research and clinical centres across North America, including the University of Toronto, the Hospital for Sick Children, the University of Calgary and St. Michael's Hospital. The mandate of the SAB is to advise the Corporation in its research programs. The SAB meets on a periodic basis to review and advise Transition on its pre-clinical strategies. The SAB will guide Transition in designing sound scientific animal studies and clinical protocols for satisfying the requirements of various regulatory bodies. In this regard, the SAB also reviews results of pre-clinical testing and recommends when Transition should proceed with clinical testing in each of its programs.

The current members of the SAB are Dr. Mario Moscarello, Dr. David Hart and Dr. Bradley Strauss. See "Research Collaborations – Third Party Advisors, Collaborators and Consultants" for a description of their qualifications. Additional members may be added as required.

USE OF PROCEEDS

The net proceeds to the Corporation from the Offering (assuming no exercise of the Over-Allotment Option) are estimated to be $• after deducting estimated expenses of the Offering and the Agent's fee which are estimated to be $• and $•, respectively. Transition currently intends to use the net proceeds of the Offering as follows:

(i) $• for ongoing research and development, with $· being allocated to Transition's Therapeutics Program and $• being allocated to Transition's Device and Topical Treatments Program;

(ii) $• to fund manufacturing, formulations and process development;

(iii) $• to fund toxicology studies; and

(iv) $• for working capital and general corporate purposes.

The amount actually expended for the purposes described in (i), (ii) and (iii) above could vary significantly depending on, among other things, the progress of Transition's research and development programs, regulatory approvals, technological advances, the commercial potential of products based on Transition's technology and the status of competitive products. However, the amount of the net proceeds reserved for working capital and general corporate purposes is not expected to deviate materially from the amount shown in (iv) above.

PLAN OF DISTRIBUTION

Pursuant to an agency agreement dated •, 2001 between Transition and the Agent (the "Agency Agreement"), the Agent has agreed to act as agent of the Corporation to solicit subscriptions on a "best efforts" basis for • Common Shares in the provinces of British Columbia, Alberta and Ontario at the Offering Price. The Offering Price was determined by negotiation between the Corporation and the Agent. Subscriptions will be received subject to rejection or allotment in whole or in part, and the right is reserved to close the subscription books at any time without notice. The closing of the Offering is to take place on or about •, 2001 or such other date as the Corporation and the Agent may agree but, in any event, not later than •, 2001.

Pursuant to the Agency Agreement, the Corporation has agreed to pay to the Agent a fee of 7% of the gross proceeds of the Offering. As additional compensation, the Corporation will issue to the Agent on the closing of the Offering the Agent's Warrants entitling the Agent to purchase that number of Common Shares as is equal to 10% of the number of Common Shares issued and sold by the Corporation pursuant to the Offering (including any Common Shares sold pursuant to the Over-Allotment Option), exercisable at the Offering Price for a period of 18 months following the closing of the Offering. The Agent will also be reimbursed for all reasonable expenses incurred in connection with the Offering. The obligations of the Agent under the Agency Agreement may be terminated at its discretion on the basis of its assessment of the state of the financial markets or upon the occurrence of certain stated events.

The Corporation has granted to the Agent, for a period of 30 days following the date upon which Common Shares are first listed for trading on CDNX, the right (being the Over-Allotment Option) to purchase at the Offering Price that number of Common Shares as is equal to 10% of the number of Common Shares purchased pursuant to the Offering in order to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the total price to the public, Agent's fee and net proceeds to the Corporation before deducting the estimated expenses of the Offering will be $•, $• and $•, respectively.

This prospectus qualifies the distribution of (i) • Common Shares pursuant to this Offering; (ii) 6,500,000 Non-Voting Class B Shares and 3,250,000 Class B Warrants issuable upon the exercise or deemed exercise of 6,500,000 previously issued Special Warrants; (iii) the Agent's Warrants; (iv) any Common Shares that are issued pursuant to the Over-Allotment Option; and (v) Stock Options to acquire 265,000 Common Shares to be granted to employees and a consultant of the Corporation at the closing of the Offering pursuant to the Corporation's stock option plan.

The Common Shares have not and will not be registered under the United States *Securities Act of 1933*, as amended. Accordingly, subject to certain exceptions, the Common Shares may not be offered or sold within the United States.

PRIVATE PLACEMENT

On October 20, 2000 the Corporation completed a private placement of an aggregate of 6,500,000 Special Warrants, at a price of $0.80 per Special Warrant, in reliance upon exemptions from the prospectus and registration requirements of the securities legislation of the provinces of Alberta and Ontario. The offering price of the Special Warrants was established by negotiation between the Corporation and the purchasers of the Special Warrants. The Corporation paid the Agent an aggregate fee of $256,000 in connection with the private placement of the Special Warrants. The Agent will receive no additional fees in connection with the distribution of the Non-Voting Class B Shares and Class B Warrants issuable upon the exercise or deemed exercise of the Special Warrants.

Each Special Warrant entitles the holder thereof to acquire, for no additional consideration and subject to adjustment in certain circumstances: (i) if exercised prior to the closing of the Offering, one Non-Voting Class B Share and one-half of one Class B Warrant (a "Unit"); and (ii) if exercised or deemed exercised on the closing of the Offering, the greater of (x) one Unit, and (y) that number of Units equal to $0.98 divided by the Offering Price if the Offering Price is less than $0.98 per Common Share. Each whole Class B Warrant entitles the holder thereof to acquire one additional Non-Voting Class B Share at a price per share equal to the Offering Price until the date that is 10 months after the closing of the Offering. In addition, the purchasers of the Special Warrants are entitled to purchase, on a pro-rata basis, up to an aggregate of 35% of the Common Shares (including Common Shares issuable upon exercise of the Over-Allotment Option) issued pursuant to the Offering.

In the event that on or before October 15, 2001: (a) an initial public offering of Common Shares resulting in gross proceeds of $5 million has not been completed by Transition; (b) neither the Toronto Stock Exchange nor CDNX has approved the listing of the Common Shares; or (c) the Non-Voting Class B Shares and Class B Warrants issuable upon exercise or deemed exercise of the Special Warrants are not free from any and all resale restrictions including, without limitation, statutory resale restrictions, transfer restrictions or other regulatory, corporate or legal restrictions (other than "control block" restrictions under applicable securities law), preventing immediate sale to either (i) purchasers resident in Alberta, or (ii) through the facilities of the exchange or quotation system upon which the Common Shares are listed, then each Special Warrant will entitle the holder upon exercise or deemed exercise thereof, without payment of additional consideration, to be issued additional Units (up to a maximum of 1.5 Units), the precise number of which depends upon the date that such conditions are satisfied.

Any Special Warrants that are not exercised prior to the closing of the Offering will be deemed to have been exercised immediately prior to the closing of the Offering without any action on behalf of the holder. Any Non-Voting Class B Shares or Class B Warrants issued to holders of the Special Warrants which are exercised prior to the issuance of a receipt for this prospectus will be subject to hold periods under applicable securities legislation. In such circumstances, holders of the Special Warrants should consult their own legal advisors with respect to such hold periods and resale restrictions.

Concurrent with the issuance of the Special Warrants, certain directors, officers and employees of Transition have undertaken not to transfer any Common Shares (with a cost base of less than $0.80 per Common Share) held by such individuals for a period of 12 months following the closing of the Offering.

DESCRIPTION OF SHARE CAPITAL

The Corporation's share capital consists of an unlimited number of Common Shares and an unlimited number of Non-Voting Class B Shares. As at December 21, 2000, 13,750,000 Common Shares and no Non-Voting Class B Shares were issued and outstanding.

Common Shares

The holders of Common Shares are entitled to receive notice of, and to attend, any meeting of shareholders of the Corporation and are entitled to one vote in respect of each Common Share held at all such meetings. The holders of Common Shares are entitled to receive, if, as and when declared by the board of directors of the Corporation, dividends in such amounts as shall be determined by the Corporation's board of directors, and to participate rateably with the Non-

Voting Class B Shares in any distribution of assets of the Corporation pursuant to a liquidation, dissolution or winding up of the Corporation or other distribution of assets of the Corporation. The Common Shares are not subject to any future call or assessment and there are no pre-emptive, conversion or redemption rights attached to such shares.

Non-Voting Class B Shares

The holders of Non-Voting Class B Shares are entitled to receive notice of, and to attend, any meeting of shareholders of the Corporation, but are not entitled to vote any Non-Voting Class B Shares at any such meeting. The holders of Non-Voting Class B Shares are entitled to participate rateably with the Common Shares in any distribution of the assets of the Corporation pursuant to a liquidation, dissolution or winding-up of the Corporation or other distribution of assets. The Non-Voting Class B Shares are not subject to any future call or assessment and there are no pre-emptive, conversion or redemption rights attached to such shares, except for the conversion right set out below.

Each Class B Share may at any time be converted, at the option of the holder thereof, into one Common Share upon the provision of written notice of such conversion to the Corporation by the holder thereof.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Corporation as at the dates indicated:

Description	Outstanding as at June 30, 2000 before giving effect to the Offering	Outstanding as at October 31, 2000 before giving effect to the Offering[1][2]	Outstanding as at October 31, 2000 after giving effect to the Offering[1][3]
	(audited)	(unaudited)	(unaudited)
Long-Term Debt:	$67,026	$62,831	$?
Shareholder's Equity:			
Common Shares	$970,266 (10,936,855 shares)	$970,353 (13,750,000 shares)	$? (? shares)
Special Warrants	Nil	$4,944,000 (6,500,000 Special Warrants)	Nil
Non-Voting Class B Shares	Nil	Nil	?
Deficit	$ (529,808)	$ (738,733)[4]	$?
Total shareholder's Equity	$ 507,484	$5,238,451	$?

(1) As at October 31, 2000 the Corporation had reserved an aggregate of 10,390,000 Common Shares for issuance as follows: (i) 640,000 Common Shares for issuance upon exercise of 640,000 outstanding Stock Options; and (ii) 9,750,000 Common Shares for issuance upon conversion of Non-Voting Class B Shares issuable upon an exercise or deemed exercise of the Special Warrants and on an exercise of Class B Warrants resulting from an exercise or deemed exercise of the Special Warrants.

(2) Prior to giving effect to the exercise or deemed exercise of the Special Warrants or the exercise of the Stock Options.

(3) After giving effect to the exercise or deemed exercise of the Special Warrants but prior to giving effect to (i) the conversion of all Non-Voting Class B Shares and the exercise of Class B Warrants resulting from the exercise or deemed exercise of the Special Warrants, (ii) the exercise of the Over-Allotment Option, (iii) the exercise of the Agent's Warrants, and (iv) the exercise of the Stock Options.

(4) As at September 30, 2000.

DIVIDEND RECORD

No dividends have been declared or paid on the Common Shares or any other securities of the Corporation since incorporation and it is not anticipated that any dividends will be declared or paid on the Common Shares or on any other securities of the Corporation in the immediate or foreseeable future. Any decision to pay dividends on the Common

Shares will be made by the board of directors on the basis of the Corporation's earnings, financial requirements and other conditions and business considerations existing at such future time.

PRINCIPAL SHAREHOLDERS

To the knowledge of management of the Corporation, as of December 21, 2000, the following table lists those persons or companies who beneficially own, directly or indirectly, or exercise control or direction over, more than 10% of the outstanding Common Shares.

Name	Type of Ownership	Number of Common Shares Owned or Controlled	Percentage of Common Shares prior to giving effect to the Offering (1)	Percentage of Common Shares after giving effect to the Offering (2)
Dr. Tony Cruz Toronto, Ontario	Registered and Beneficial	5,439,639	39.56%	•
Dr. Eva Turley London, Ontario	Registered and Beneficial	1,230,387(3)	8.95%	•

(1) Prior to giving effect to the exercise or deemed exercise of the Special Warrants and the exercise of the Stock Options.

(2) After giving effect to the exercise or deemed exercise of the Special Warrants but prior to giving effect to (i) the conversion of all Non-Voting Class B Shares and the exercise of Class B Warrants resulting from the exercise or deemed exercise of the Special Warrants, (ii) the exercise of the Over-Allotment Option, (iii) the exercise of the Agent's Warrants, and (iv) the exercise of the Stock Options.

(3) Provided that certain milestones, as set out in a consulting agreement dated April 1, 2000 of Dr. Turley with Transition, an additional 827,714 Common Shares will be issued to Dr. Turley representing 6.02% of the issued and outstanding Common Shares prior to giving effect to the Offering and the exercise or deemed exercise of the Special Warrants and Stock Options, and representing •% of the issued and outstanding Common Shares after giving effect to the Offering and the exercise or deemed exercise of the Special Warrants but prior to giving effect to (i) the conversion of all Non-Voting Class B Shares and the exercise of Class B Warrants resulting from the exercise or deemed exercise of the Special Warrants, (ii) the exercise of the Over-Allotment Option, (iii) the exercise of the Agent's Warrants and (iv) the exercise of the Stock Options.

To the knowledge of management of the Corporation, Curtis Investment Corporation ("CIC") owns beneficially as of record 4,500,000 Special Warrants, each of which is exercisable into one Class B Share and one-half of one Class B Warrant, subject to adjustment. See "Private Placement". After giving effect to the Offering and the exercise or deemed exercise of the Special Warrants, and after giving effect to the conversion of Non-Voting Class B Shares resulting from an exercise or deemed exercise of the Special Warrants but prior to giving effect to the exercise of (i) Class B Warrants resulting from the exercise or deemed exercise of the Special Warrants (ii) the Over-Allotment Option, (iii) the Agent's Warrants and (iv) the Stock Options, CIC would own approximately •% of the then outstanding Common Shares.

As of the date hereof, before giving effect to the Offering and the exercise or deemed exercise of the Special Warrants and the Stock Options, the directors and senior officers of the Corporation, as a group, directly or indirectly own approximately 51.7% of the outstanding Common Shares.

PRIOR SALES OF SECURITIES

During the twelve-month periodpreceding the date of this prospectus, the following securities have been issued by the Corporation:

Date of Issue	Number of Securities	Class of Securities	Issue Price per Security	Aggregate Price	Nature of Consideration
Jan.–April, 2000[1]	1,994,083	Common Shares	$0.42377	$845,032	Cash
March–July, 2000[2]	1,693,373[3]	Common Shares	–[4]	–	Employment Services
April-July, 2000[5]	244,236[6]	Common Shares	–[4]	–	Consulting Services
July 1, 2000	162,824[7]	Common Shares	–[4]	–	Laboratory Facilities
July 1, 2000	1,953,894[8]	Common Shares	–[4]	–	Consulting Services
Oct. 20, 2000	6,500,000	Special Warrants	$0.80	$5,200,000	Cash

(1) Between January 10, 2000 and April 1, 2000, an aggregate of 1,994,083 Common Shares were issued at a price of $0.42377 per Common Share.

(2) Issued to employees of Transition, pursuant to each such employee's employment agreement with Transition, between March 1, 2000 and July 1, 2000.

(3) Issued to certain of the Corporation's employees pursuant to their respective employment agreements with Transition. As at the date hereof, 1,074,194 of such Common Shares are held in escrow pursuant to an escrow agreement with Transition dated October 1, 2000, with a certain percentage of Common Shares being released from escrow for each month of completed employment of each such employee with Transition and with 553,603 Common Shares to be released upon the achievement of certain milestones as specified in such agreements.

(4) The Corporation issued these Common Shares at a nominal value of $0.0001 per Common Share.

(5) Issued to certain consultants, pursuant to each such consultant's consulting agreement with Transition, between April 20, 2000 and July 1, 2000.

(6) Issued to certain consultants in respect of consulting services provided to Transition. As at the date hereof, 71,254 of such Common Shares are held in escrow pursuant to an escrow agreement dated October 1, 2000 with Transition, with a certain percentage of Common Shares being released from escrow for each month of services provided to Transition.

(7) Issued pursuant to an agreement with Canadian Arthritis Network in consideration of the provision of laboratory facilities. See "Business of the Corporation – Facilities".

(8) Issued pursuant to a consulting agreement dated April 1, 2000 with Dr. Eva Turley. As at the date hereof, 841,277 of such Common Shares are held in escrow pursuant to an escrow agreement dated October 1, 2000 with Transition, with a certain percentage being released for each completed month of service for Transition, and with 651,298 Common Shares to be released upon the achievement of certain milestones specified in such agreement.

ESCROWED SECURITIES

Under an agreement (the "Escrow Agreement") to be entered into at the closing of the Offering between Montreal Trust Company of Canada, as escrow agent (the "Escrow Agent"), the Corporation, and each of the shareholders listed below (collectively, the "Escrowed Shareholders"), the Escrowed Shareholders have agreed to place on deposit with the Escrow Agent the respective number of Common Shares (the "Escrowed Shares") set out in the following table:

Name of Holder	Number of Escrowed Shares	Percentage of Class[1]
Dr. Tony Cruz	•	•%
Michael Lincoln.....	•	•%
Dr. Eva Turley	•	•%
•.....	•	•%
Total	•	•%

(1) After giving effect to the Offering and the exercise or deemed exercise of the Special Warrants but prior to giving effect to (i) the conversion of all Non-Voting Class B Shares and the exercise of the Class B Warrants resulting from the exercise or deemed exercise of the Special Warrants, (ii) the exercise of the Over-Allotment Option, (iii) the exercise of the Agent's Warrants, and

(iv) the exercise of the Stock Options. Percentage ownership of Common Shares is based on • Common Shares outstanding immediately following the Offering and assuming the foregoing.

The Escrow Agreement will permit the initial release from escrow of 10% of the Escrowed Shares nine months after the date that a final receipt for this prospectus is issued by the Ontario Securities Commission. An additional 30% of such Escrowed Shares will be released on each of the first, second and third anniversaries of the date of the initial release. Other than as permitted in the Escrow Agreement, the Escrowed Shares may not be transferred within escrow, released from escrow or otherwise dealt with prior to such dates without the prior express consent in writing of the Ontario Securities Commission.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning the total compensation paid to the Corporation's Chief Executive Officer and the senior officers other than the Chief Executive Officer for the fiscal year of the Corporation ended June 30, 2000:

	Annual Compensation			Long Term Compensation	
Name and Principal Position	**Salary**	**Bonus**	**Other Annual Compensation**	**Common Shares Under Options Granted**	**All Other Compensation**
Dr. Tony Cruz, President and CEO	Nil	Nil	Nil	Nil	4,559,085 Common Shares(1)
Michael Lincoln, Vice-President, Business Development	$130,000	Nil	Nil	Nil	325,675 Common Shares(2) 260,519 Common Shares(3)
Louis Alexopoulos, Chief Financial Officer and Secretary	$45,000	Nil	Nil	Nil	81,412 Common Shares(4)

(1) Issued July 1, 1999 and June 1, 2000. The Corporation assigned a nominal value of $0.0001 to each such Common Share.

(2) Issued March 1, 2000. 284,977 of such Common Shares are currently held in escrow pursuant to an escrow agreement with Transition dated October 1, 2000, with 13,566 Common Shares being released from escrow for each complete month of employment with Transition starting October 1, 2000. The Corporation assigned a nominal value of $0.0001 to each such Common Share.

(3) Issued June 1, 2000. 227,969 of such Common Shares are currently held in escrow pursuant to an escrow agreement with Transition dated October 1, 2000, with 5,425 Common Shares being released from escrow for each complete month of employment with Transition starting July 1, 2000. The Corporation assigned a nominal value of $0.0001 to each such Common Share.

(4) Issued April 30, 2000. 71,254 of such Common Shares are currently held in escrow pursuant to an escrow agreement with Transition dated October 1, 2000, with 1,693 Common Shares being released from escrow for each complete month of employment with Transition starting July 1, 2000. The Corporation assigned a nominal value of $0.0001 to each such Common Share.

Compensation of Directors

The Corporation has no standard arrangement pursuant to which directors of the Corporation are compensated by it for their services in their capacity as directors, except for the payment of reasonable expenses incurred by the directors in attending meetings of the board of directors of the Corporation and the granting from time to time of Stock Options under its stock option plan. During the fiscal year ended June 30, 2000, no fees were paid, and no options to acquire Common Shares were granted, to the directors of the Corporation who are not officers of the Corporation.

Employment and Other Agreements with Senior Officers

The Corporation has entered into employment agreements with Dr. Tony Cruz dated April 1, 1999 as amended July 1, 1999, and Michael Lincoln dated September 1, 1999. The employment agreement with Dr. Cruz provides that he will serve as the President and Chief Executive Officer of the Corporation at an annual salary of $185,000. The employment agreement with Michael Lincoln provides that he will serve as Vice-President, Business Development of the Corporation and will be entitled to an annual salary of $130,000. In addition, each individual shall be entitled to certain additional remuneration and other benefits and perquisites, including Stock Options and a performance bonus to be determined at the discretion of the board of directors of the Corporation. The employment agreements are subject to certain confidentiality restrictions and termination provisions.

The Corporation has not entered into an employment agreement with Mr. Louis Alexopoulos, its Chief Financial Officer and Secretary. However, the Corporation has entered into an agreement dated April 15, 2000 with Worldwide Franchising Associates Inc. ("Worldwide"), which is controlled by Mr. Alexopoulos. Pursuant to such agreement, Transition is to pay Worldwide an annual fee of $45,000 for the services provided to Transition by Worldwide. The consulting agreement is subject to certain confidentiality restrictions and termination provisions.

Key Man Insurance

The Corporation maintains a "key man" insurance policy on the life of Dr. Tony Cruz in the aggregate amount of $2 million. The Corporation pays the premiums on such policy and is the beneficiary.

STOCK OPTIONS

In November 1999, the Corporation established a stock option plan (the "Plan") for the directors, officers, employees, members of the SAB and consultants of the Corporation or of subsidiaries of the Corporation in order to secure for the Corporation and its shareholders the benefit of an incentive interest in share ownership by participants under the Plan.

The Plan is administered by the board of directors of the Corporation or the Compensation Committee of the Corporation (collectively, the "Plan Administrator") which shall have final authority over the Plan. The Plan Administrator shall designate the recipients of Stock Options and shall determine the number, vesting conditions, the exercise price, expiry date and any other question relating thereto, in each case in accordance with the applicable legislation of the applicable securities regulatory authorities. The Chief Executive Officer has the authority to offer Stock Options to participants, other than to directors (which Stock Options are granted by the Plan Administrator) within the parameters established therefor by the Plan Administrator.

All Stock Options granted under the Plan must be exercised within a maximum period of five years following the grant date thereof. The maximum number of Common Shares that may be issued pursuant to Stock Options granted under the Plan shall not exceed 10% of the issued and outstanding Common Shares, to a maximum of 2,100,000 Common Shares. The maximum number of Common Shares that may be issued to any individual pursuant to Stock Options granted under the Plan will not exceed 5% of the outstanding Common Shares and the total number of Common Shares that may be issued to consultants pursuant to Stock Options granted under the Plan will not exceed 2% of the issued and outstanding Common Shares.

Prior to the occurrence of the closing of the Offering, the exercise price for each Stock Option granted under the Plan shall be established by the Plan Administrator and shall not be lower than the "fair market value" thereof at the time of granting. The "fair market value" shall be equal to the price per share of the last *bona fide* private placement offering of the Corporation. Following the occurrence of the closing of the Offering and the listing of the Common Shares on a recognized exchange in either Canada or the United States, the exercise price of Stock Options granted under the Plan shall be equal to the weighted average closing price of the Common Shares for the five business days immediately preceding the date of the grant on the stock exchange on which the Common Shares are listed on the date of such grant.

Provision is made for early termination in the event of death or termination of employment. Any Stock Options granted will be non-transferable.

At the closing of the Offering, the Corporation intends to grant to three (3) of its employees Stock Options to purchase a total of 40,000 Common Shares at the Offering Price vesting as to (i) 10,000 Common Shares on the first anniversary of the closing of the Offering, (ii) 10,000 Common Shares on the second anniversary of the closing of the Offering, (iii) 10,000 Common Shares on the third anniversary of the closing of the Offering, and (iv) 10,000 Common Shares on the fourth anniversary of the closing of the Offering. The Corporation also intends to grant at the closing of the Offering Stock Options to purchase 225,000 Common Shares at the Offering Price to Dr. Bradley G. Thompson, who is a director of Transition, for consulting services to be rendered to Transition between October 20, 2000 and April 20, 2001, which Stock Options are to be immediately vested upon the grant thereof.

The following table sets forth the outstanding Stock Options to purchase Common Shares outstanding as at December 21, 2000, with each Stock Option entitling the holder thereof to purchase one Common Share:

	Number of Stock Options	**Date of Grant**	**Exercise Price**	**Closing Market Price on Date of Grant**	**Expiry Date**
Senior Officers (3 persons)	195,000	Oct. 25, 2000	$0.80	–	Oct. 24, 2005
Directors (who are not also officers) (5 persons)	75,000	Oct. 25, 2000	$0.80	–	Oct. 24, 2005
Employees (6 persons)	90,000	Oct. 25, 2000	$0.80	–	Oct. 24, 2005
Consultants (6 persons)	280,000[1]	Oct. 25, 2000	$0.80	–	Oct. 24, 2005
TOTAL	**640,000**				

(1) 200,000 of such Stock Options are subject to the achievement of certain milestones by Dr. Mario Moscarello as specified in his agreement with Transition.

DILUTION

The Offering Price of $• for each Common Share exceeds the unaudited consolidated net tangible book value per Common Share as at September 30, 2000, after giving effect to the Offering by $• or •%. The following table sets out the dilution per Common Share as at September 30, 2000:

Offering Price[1]		$•
Net tangible book value per share prior to this Offering[2]	$•	
Increase in net tangible book value per share attributable to the Offering[3]	$•	
Net tangible book value after this Offering[4]		$•
Dilution per share to subscribers for Common Shares[4]		$•
Percentage of dilution in relation to the Offering Price		•%

(1) Before deducting the fees payable to the Agent and estimated expenses of the Offering and prior to the exercise or deemed exercise of the Special Warrants.

(2) After giving effect to the issuance of the Special Warrants.

(3) Prior to giving effect to the exercise of Over-Allotment Option and Agent's Warrants.

(4) After giving effect to the exercise or deemed exercise of the Special Warrants but prior to giving effect to (i) the conversion of the Non-Voting Class B Shares and Class B Warrants resulting from the exercise or deemed exercise of the Special Warrants,

(ii) the exercise of the Over-Allotment Option, (iii) the exercise of the Agent's Warrants, and (iv) the exercise of the Stock Options.

RISK FACTORS

An investment in the Common Shares entails certain risk factors and should be considered to be highly speculative. The following investment factors should be carefully considered together with the other information contained in this prospectus before making an investment decision.

No Assurance of Successful Development

Prospects for companies in the biopharmaceutical industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in biopharmaceutical companies should be regarded as speculative. The Corporation'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 upon studies in animals, whether a new therapeutic, device or topical treatment will prove to be safe and effective in humans. As at the date hereof, the Corporation has not introduced a product into the market. There can be no assurance that the research and development programs conducted by the Corporation will result in any commercially viable products and in the event that any product or products result from the research and development of the Corporation, it is unlikely that any such product will be commercially available for a number of years. To achieve profitable operations, the Corporation, alone or with others, must successfully develop, introduce and market products. To obtain regulatory approvals for any product that may be developed and to achieve commercial success, human clinical trials must demonstrate that such product is safe for human use and that it demonstrates efficacy. Unsatisfactory results obtained from a particular study relating to a program may cause the Corporation to reduce or abandon in whole its commitment to such program. No assurances can be provided that any future animal or human test, if undertaken, will yield favourable results.

Lack of Profitability

The Corporation's prospects must be considered in light of the risks, expenses and difficulties frequently encountered with the establishment of a development stage company in a highly competitive industry, characterized by frequent new product introductions. The Corporation has concentrated on research and development and has generated limited revenues which are insufficient to offset its research and development costs and, accordingly, the Corporation has not made an operating profit. The Corporation has had no earnings, minimal revenues and negative cash flows to date, and there can be no assurance that it will have earnings or positive cash flow in the future. The Corporation 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.

Liquidity and Capital Requirements

The Corporation's future capital requirements will depend on many factors, including continued scientific progress in its research and development program, progress in any pre-clinical and clinical evaluation of products and product candidates that may be undertaken by the Corporation, time and expense associated with filing, prosecuting and enforcing its patent claims and costs associated with obtaining regulatory approvals. In order to meet such capital requirements, the Corporation will consider contract fees, collaborative research and development arrangements, and additional public or private financing (including the issuance of additional equity securities or the incurrence of debt) to fund all or a part of the Corporation's programs. There can be no assurance that additional funding will be available or, if available, that it will be available on acceptable terms. If adequate funds are not available, the Corporation may have to substantially reduce or eliminate expenditures for research and development, testing, and any future production and marketing of its proposed products, or obtain funds through arrangements with corporate partners that may require the Corporation to relinquish rights to certain of its technologies or products. There can be no assurance that the Corporation will be able to raise additional capital if its capital resources are exhausted. The ability of the Corporation to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business

performance of the Corporation. There can be no assurance that the Corporation will be successful in its efforts to arrange additional financing on terms satisfactory to the Corporation if its capital resources, including the proceeds of this Offering, are exhausted.

Dependence on Key Personnel

Transition's success is dependent to a great degree upon its ability to attract and retain highly qualified management and scientific personnel and to develop and maintain relationships with leading research institutions. The Corporation is highly dependent on the principal members of its management as well as its advisors, collaborators and consultants. Competition for such personnel is intense and is affected by a number of factors beyond the control of the Corporation. The loss of such key employees, advisors, collaborators and consultants, could compromise the speed and success of the Corporation's research and development objectives and adversely affect the Corporation's future prospects.

Dependence on Third Party Relationships

The Corporation relies upon third party relationships for assistance in the conduct of its research and development and expects to rely on third party relationships for manufacturing, marketing and commercialization of its products. There can be no assurance that the Corporation will be able to maintain or establish such arrangements on favorable terms, if at all, or that such arrangements will be successful. The failure to establish successful arrangements with third parties could have an adverse effect on the Corporation's future prospects.

Proprietary Rights and Patent Protection

The Corporation's success will depend, in part, on its ability to obtain patents that protect its technology and to operate without infringing the rights of third parties. Notwithstanding that the Corporation has filed certain patent applications, there can be no assurance that such patent applications will be allowed, that the Corporation will develop future proprietary technology and/or products that are patentable, that any issued patents will provide the Corporation with any competitive advantages or will not be successfully challenged by any third party, or that the patents of others will not have an adverse effect on the ability of the Corporation to do business. In addition, there can be no assurance that a third party will not independently develop similar technologies, duplicate some or all of the Corporation's technologies or, if patents are issued to the Corporation, design their products so as to circumvent the patent protection held by the Corporation. Furthermore, there can be no assurance that the confidentiality of the Corporation's technology can be maintained or that such technology will not or has not already been independently discovered by others.

Disclosure and use of the Corporation's know-how and technology not otherwise protected by patent are generally controlled by written agreements. There can be no assurance, however, that all such agreements will be honored, that others will not independently develop equivalent technology, that disputes will not arise concerning the ownership of intellectual property or that disclosure of the Corporation's technology will not occur. To the extent that advisors, consultants or other research collaborators use intellectual property owned by others in their work with the Corporation, disputes may also arise as to the rights to the resulting know-how or inventions.

In addition, the Corporation may be required to obtain licences to patents or other proprietary rights of third parties. No assurance can be given that any licenses required under such patents or proprietary rights will be available on terms acceptable to the Corporation. If the Corporation does not obtain such licenses, it could encounter delays in introducing one or more of its products to the market while it attempts to design around such patents, or could find that the development, manufacture or sale of products requiring such licenses could be foreclosed. In addition, the Corporation could incur substantial costs in defending itself in suits brought against the Corporation regarding such patents or in suits whereby the Corporation attempts to enforce its own patents against other parties.

The patent protection afforded to biopharmaceutical companies is uncertain and involves many complex legal, scientific and factual questions. There is no clear law or policy involving the degree of protection afforded under patents. As a result, there can be no assurance that (i) any patents will be issued to the Corporation in any or all appropriate jurisdictions in which applications have been or will be filed, (ii) litigation will not be commenced seeking to challenge

the Corporation's patent protection or that such challenges will not be successful, (iii) processes or products of the Corporation do not or will not infringe upon the patents of third parties, or (iv) the scope of patents that may be issued to the Corporation will successfully prevent third parties from developing similar or competitive products. It is not possible to predict how any patent litigation will affect the Corporation's efforts to develop, manufacture or market its products. The cost of litigation to uphold the validity and prevent infringement of any patents issued to the Corporation may be significant and there can be no assurance that the Corporation will have sufficient financial or other resources to conduct such litigation.

Risk of Third Party Claims for Infringement

The Corporation is not aware of any of its technology or processes that infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Corporation with respect to current or future technology or products of the Corporation. Dealing with any such claims, with or without merit, could be time-consuming, result in costly litigation, or require the Corporation to enter into royalty or licensing agreements which may or may not be available on terms acceptable to the Corporation. The failure to do any of the foregoing may have a material adverse effect on the Corporation.

Regulatory Environment

The procedure involved in obtaining regulatory approval from the competent authorities to market therapeutic products and devices and topical treatments is a long and expensive process that may delay or prevent product development. The Corporation's product candidates have not received regulatory approval and any regulatory approval sought to allow the Corporation to market a product may be applicable to a limited extent only or it may be refused in its entirety. Such limitations or refusal could have a material adverse effect on the sales and profitability of the Corporation. To date, Transition has not submitted applications to the Health Canada or the FDA for the marketing of its therapeutic products or devices and topical treatments. There can be no assurance that the Corporation will obtain such regulatory approval on a timely basis if at all.

Competition

Competition in the biopharmaceutical industry is intense. The Corporation will compete with other companies that are developing or have developed products designed to treat similar conditions. Many of these other companies have substantially greater resources than the Corporation. There can be no assurance that developments by other companies will not adversely affect the competitiveness of the Corporation's technologies or any products based thereon or the commitment of the Corporation's research collaborators to the Corporation's programs.

The biopharmaceutical industry is also characterized by extensive research efforts and rapid technological change. Competition can be expected to increase as technological advances are made and commercial applications for biopharmaceutical products increase. Competitors of the Corporation may use different technologies or approaches to develop products similar to the products which the Corporation is seeking to develop, or may develop new or enhanced products or processes that may be more effective, less expensive, safer or more readily available before the Corporation obtains regulatory approval of its products. There can be no assurance that any product developed by the Corporation will compete successfully or that research and new industry developments will not render the Corporation's products obsolete or uneconomical.

Manufacturing and Marketing

The Corporation has limited or no experience in large scale manufacturing and marketing its products. There can be no assurance that any manufacturing and marketing efforts will be successful. The Corporation intends to rely on third parties to manufacture or market products. Accordingly, the quality and commercial success of such products may be outside its control. There can be no assurance that the market will accept the Corporation's product candidates, even if they prove to be safe and effective and are approved for marketing by the TPD, the FDA and other regulatory authorities. Failure of or delay by a manufacturer of the Corporation's products to comply with Good Manufacturing Practices or similar quality control regulations or satisfy regulatory inspections may have a material adverse effect on the

future prospects of the Corporation. Further, market penetration of the Corporation's products will be influenced by factors including the cost-effectiveness and overall economic benefits that such products offer.

Product Liability and Insurance

The sale and use of products under development by the Corporation, and the conduct of clinical studies involving human subjects, may entail risk of product liability. The Corporation does not currently have in place product liability insurance and there can be no assurance that it will be able to obtain or maintain appropriate levels of product liability insurance for the use of its products in clinical trials or for commercial sale. An inability to obtain insurance on economically feasible terms or to otherwise protect against potential product liability claims could inhibit or prevent the commercialization of products developed by the Corporation. The obligation to pay any product liability claim or recall a product could have a material adverse effect on the business, financial condition and future prospects of the Corporation.

Economic Environment

Reimbursement for new products has come under scrutiny in an effort to control rising health care costs. In addition to research into a product's safety and efficacy, research must also be carried out to demonstrate cost-effectiveness for reimbursement purposes. This information may be required for either governmental or third party insurer purposes in various countries. Failure to achieve enlistment in reimbursement schedules may have an adverse effect on a product's market penetration.

Future Acquisitions

There are no assurances that the Corporation can successfully identify or negotiate the acquisition of, or licenses for, additional technologies in the future. An inability to do the foregoing may have an adverse effect on the Corporation

Market Risk

The Common Shares are speculative securities. There has been no public market for the Common Shares. There can be no assurance that an active public trading market for the Common Shares will develop or be sustained or that the market price of the Common Shares will not decline. The Offering Price will be determined through negotiations between the Corporation and the Agent and may not be indicative of the market price for the Common Shares after the completion of the Offering. The market price of the Common Shares could be subject to significant fluctuations. Accordingly, an investment in Common Shares should be considered only by those investors who are able to make a long-term investment and can afford to suffer a total loss of their investment. An investor should consider the merits of an investment in Common Shares and should consult professional advisers to assess income tax, legal and other aspects of such an investment.

Volatility of Common Share Price

The market price of the Common Shares following completion of this offering may be highly volatile and subject to significant fluctuations, as has been the case with securities of other companies in emerging industries such as the biopharmaceutical industry. Factors such as the Corporation's annual or interim operating results and announcements by the Corporation or its competitors concerning technological innovations or new products may have a significant effect on the market price of the Common Shares. In addition, market prices for securities of many emerging companies in the biopharmaceutical industry have experienced wide fluctuations not necessarily related to the operating or other performance of such companies. These broad market fluctuations may adversely effect the market price of the Common Shares. There can be no assurance that purchasers of Common Shares will be able to resell their Common Shares at prices equal to or greater than the Offering Price.

FORWARD-LOOKING STATEMENTS

Statements under the headings "Prospectus Summary", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business of the Corporation" and "Stages of Development of Transition's Products" and elsewhere in this prospectus about the Corporation's future plans and intentions, results, levels of activity, performance, goals or achievements or other future events constitute forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

In some cases forward-looking statements can be identified by the use of words such as "may", "will", "should", "could", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts" or "potential" or the negative or other variations of these words, or other comparable words or phrases.

Forward-looking statements and other information contained in this prospectus that are indicative of the Corporation's "belief" are based upon the Corporation's results derived to date from its research and development program with animals and upon which the Corporation believes that it has a reasonable scientific basis to expect the particular results to occur. It is not possible to predict, based upon studies in animals, whether a new therapeutic or device or topical treatment will be proven to be safe and effective in humans. There can be no assurance that the particular result expected by the Corporation will occur. See "Risk Factors".

While the Corporation is not aware of any misstatements regarding any industry data presented in this prospectus, the estimates, particularly as they relate to our general expectations concerning the development of the Corporation's platform technology into commercially viable therapeutics and/or devices involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "Risk Factors" or described elsewhere in this prospectus.

Although the Corporation believes that the expectations reflected in its forward-looking statements are reasonable, the Corporation cannot guarantee future results, levels of activity, performance or achievements or other future events. The Corporation is under no duty to update any of its forward-looking statements after the date of this prospectus. Investors should not place undue reliance on forward-looking statements.

CONFLICTS OF INTEREST

Certain directors of the Corporation are associated with other companies, which may give rise to conflicts of interest. In accordance with the *Business Corporations Act* (Ontario), directors who have a material interest in any person who is a party to a material contract or a proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation.

The Corporation entered into an agreement with Cangene. Dr. John Langstaff is a Director of the Corporation and also the President and Chief Executive Officer of Cangene. See "Intellectual Property – Agreements Related to Intellectual Property – Agreement with Cangene Corporation" for a description of the agreement between Transition and Cangene and see "Business of the Corporation - Facilities" for a description of a proposed agreement with Cangene in respect of a sub-lease of facilities.

The Corporation entered into an agreement with HDM. The Corporation has also entered into an oral agreement with CAN, which the Corporation is in the process of formalizing. Dr. Tony Cruz is a director, senior officer and principal shareholder of Transition and is also a director and senior officer of each of HDM and CAN. Dr. Tony Cruz also controls HDM. See "Interests of Management and Others in Material Transactions".

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as discussed under the heading "Conflicts of Interest" and under this heading, to the knowledge of the Corporation there are no material interests, direct or indirect, of directors, senior officers, any shareholder who beneficially owns, directly or indirectly, more than 10% of the outstanding Common Shares or any known associate or affiliates of such persons, in any transaction within the last three years or in any proposed transaction which has materially affected or would materially affect the Corporation.

The Corporation has entered into an agreement with HDM, a company controlled by Dr. Tony Cruz. Dr. Tony Cruz is also a director and senior officer of HDM, as well as being a director, senior officer and principal shareholder of Transition. See "Intellectual Property – Agreements Related to Intellectual Property – Agreement with Shriners Hospitals for Children" for a description of Transition's agreement with HDM.

In addition, the Corporation has entered into an oral agreement with CAN, which the Corporation is in the process of formalizing. Dr. Tony Cruz is a director and senior officer of CAN and is also a director, senior officer and a principal shareholder of Transition. See "Business of the Corporation – Facilities" for a description of Transition's agreement with CAN.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts entered into by the Corporation during the two years preceding the date hereof or to be entered into in connection with the Offering which can reasonably be regarded as material are:

(i) the Agency Agreement as disclosed under "Plan of Distribution";

(ii) the Escrow Agreement as disclosed under "Escrowed Securities"; and

(iii) subscription agreements relating to the issue of the Special Warrants.

Copies of these agreements are available for inspection at the registered office of the Corporation, Suite 1103, 415 Yonge Street, Toronto, Ontario, M5B 2E7 during normal business hours.

PROMOTER

Dr. Tony Cruz organized the business of the Corporation in 1998 and had received more than 10% of the Common Shares at the time the business was organized. Dr. Tony Cruz may therefore be considered to be a promoter of the Corporation for purposes of applicable securities legislation.

LEGAL MATTERS

Certain legal matters relating to the distribution of Common Shares will be passed upon by Fasken Martineau DuMoulin LLP on behalf of the Corporation and by Donahue Ernst & Young LLP on behalf of the Agents. As at the date hereof, the partners and associates of Fasken Martineau DuMoulin LLP as a group and of Donahue Ernst & Young LLP as a group do not beneficially own, directly or indirectly, any of the outstanding Common Shares.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants at its principal offices in the City of Toronto, Ontario.

The transfer agent and registrar of the Corporation for its Common Shares is Montreal Trust Company of Canada, at its principal offices in the City of Calgary, Alberta.

ELIGIBILITY FOR INVESTMENT

In the opinion of Fasken Martineau DuMoulin LLP, counsel for the Corporation, and Donahue Ernst & Young LLP, counsel for the Agent, based on legislation in effect at the date hereof and subject to compliance with the prudent investment standards and the general investment provisions of the following statutes (and, where applicable, the regulations thereunder) and, in certain cases, subject to the satisfaction of additional requirements relating to investment or lending policies or goals and, in certain circumstances, the filing of such policies and goals, the Common Shares offered hereby are not, at the date hereof, precluded as investments under the following statutes:

Insurance Companies Act (Canada);
Trust and Loan Companies Act (Canada);
Pension Benefits Standards Act, 1985 (Canada);
Pensions Benefits Standards Act (British Columbia);
Employment Pension Plans Act (Alberta);
Insurance Act (Alberta);
Financial Institutions Act (British Columbia);
Loan and Trust Corporations Act (Alberta);
Loan and Trust Corporations Act (Ontario);
Pension Benefits Act (Ontario);

In the opinion of such counsel, provided that the Common Shares remain listed on a prescribed stock exchange in Canada (which includes CDNX), the Common Shares will, on the date of listing of such shares, be qualified investments under the *Income Tax Act* (Canada) for trusts governed by a registered retirement savings plan, a registered retirement income fund or a deferred profit sharing plan. Subscribers who contribute all or a portion of their Common Shares to any such plans should consult their own tax advisors as to the tax consequences of such contribution.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in several of the provinces of Canada provide purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the applicable province. The purchaser should refer to any applicable provisions of the securities legislation of his or her province for the particulars of these rights or consult with a legal advisor.

CONTRACTUAL RIGHTS OF RESCISSION

A holder of a Special Warrant who acquires a Unit upon the exercise or deemed exercise of the Special Warrant, and who is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this prospectus or any amendment thereto containing a misrepresentation, shall, subject to available defences and any limitation period under applicable securities legislation, be entitled to rescission not only of the holder's exercise or deemed exercise of its Special Warrants but also of the private placement transaction pursuant to which the Special Warrants were initially acquired, and shall be entitled, in connection with such rescission, to a full refund of the consideration paid on the acquisition of the Special Warrants. If such holder is a permitted assignee of the interest of an original holder of Special Warrants, such permitted assignee shall be entitled to exercise the rights of rescission and

refund granted hereunder as if such permitted assignee were such original subscriber. The foregoing is in addition to any other right or remedy available to a holder of a Special Warrant under applicable securities law or otherwise at law.

AUDITORS' REPORT

To the Directors of
Transition Therapeutics Inc.
[formerly Transition Therapeutics and Diagnostics Inc.]

We have audited the consolidated balance sheets of **Transition Therapeutics Inc.** [formerly Transition Therapeutics and Diagnostics Inc.] as at June 30, 2000 and 1999 and the consolidated statements of loss and deficit and cash flows for the year ended June 30, 2000 and the period from July 6, 1998, date of incorporation, to June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2000 and 1999 and the results of its operations and its cash flows for the year ended June 30, 2000 and the period from July 6, 1998 to June 30, 1999 in accordance with accounting principles generally accepted in Canada.

Toronto, Canada,
?, 2000 Chartered Accountants

Transition Therapeutics Inc.
[formerly Transition Therapeutics and Diagnostics Inc.]
Incorporated under the Business Corporations Act (Ontario)

CONSOLIDATED BALANCE SHEETS

	September 30, 2000	June 30, 2000	June 30, 1999
	$	$	$
	[unaudited]		
ASSETS			
Current			
Cash	85,105	285,533	12,672
Short-term investments *[note 3]*	40,000	40,000	—
Share subscription receivables *[note 4]*	9,416	30,579	65,007
GST receivable	20,592	16,672	203
Accrued accounts receivable *[note 8]*	128,387	104,096	—
Investment tax credits receivable *[note 7]*	80,400	80,400	1,240
Prepaid expenses	31,139	28,289	6,667
Total current assets	395,039	585,569	85,789
Capital assets, net *[note 5]*	153,636	159,546	—
	548,675	745,115	85,789
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	152,472	135,638	5,068
Advance from related parties *[note 8]*	65,629	65,629	—
Current portion of leasehold inducement *[note 10]*	3,698	3,698	—
Current portion of obligation under capital leases *[note 10]*	14,705	14,705	—
Total current liabilities	236,504	219,670	5,068
Leasehold inducement *[note 10]*	31,742	32,666	—
Obligation under capital leases *[note 10]*	48,809	52,321	—
	317,055	304,657	5,068
Commitments *[note 10]*			
Shareholders' equity			
Capital stock *[note 6]*	970,353	970,266	125,007
Deficit	(738,733)	(529,808)	(44,286)
Total shareholders' equity	231,620	440,458	80,721
	548,675	745,115	85,789

See accompanying notes

On behalf of the Board:

(Signed) Dr. Tony Cruz (Signed) Christopher M. Henley

Director Director

Transition Therapeutics Inc.
[formerly Transition Therapeutics and Diagnostics Inc.]

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	Three-month period ended September 30, 2000	Three-month period ended September 30, 1999	Year ended June 30, 2000	Period from July 6, 1998 to June 30, 1999	Cumulative since inception on July 6, 1998
	$	$	$	$	$
	[unaudited]	*[unaudited]*			*[unaudited]*
REVENUE					
Product	—	—	58,021	—	58,021
Collaboration	24,291	—	64,528	—	88,819
	24,291	—	122,549	—	146,840
EXPENSES					
Research and development, net *[note 7]*	109,328	16,667	303,083	35,266	447,677
General and administrative	116,035	7,038	302,005	9,118	427,158
Amortization	6,738	—	5,285	—	12,023
	232,101	23,705	610,373	44,384	886,858
Loss before the undernoted	(207,810)	(23,705)	(487,824)	(44,384)	(740,018)
Interest income (expense)	(1,115)	—	2,302	98	1,285
Net loss for the period	(208,925)	(23,705)	(485,522)	(44,286)	(738,733)
Deficit, beginning of period	(529,808)	(44,286)	(44,286)	—	—
Deficit, end of period	(738,733)	(67,991)	(529,808)	(44,286)	(738,733)

See accompanying notes

Transition Therapeutics Inc.
[formerly Transition Therapeutics and Diagnostics Inc.]

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three-month period ended September 30, 2000	Three-month period ended September 30, 1999	Year ended June 30, 2000	Period from July 6, 1998 to June 30, 1999	Cumulative since inception on July 6, 1998
	$	$	$	$	$
	[unaudited]	*[unaudited]*			*[unaudited]*
OPERATING ACTIVITIES					
Net loss for the period	(208,925)	(23,705)	(485,522)	(44,286)	(738,733)
Add (deduct) items not involving cash					
Amortization	6,738	—	5,285	—	12,023
Amortization of leasehold inducement	(924)	—	(616)	—	(1,540)
	(203,111)	(23,705)	(480,853)	(44,286)	(728,250)
Net change in non-cash working capital balances related to operations	6,963	(5,441)	(19,298)	(3,042)	(15,377)
Cash used in operating activities	(196,148)	(29,146)	(500,151)	(47,328)	(743,627)
INVESTING ACTIVITIES					
Purchase of short-term investments	—	—	(40,000)	—	(40,000)
Purchase of capital assets *[note 11]*	(828)	—	(97,805)	—	(98,633)
Cash used in investing activities	(828)	—	(137,805)	—	(138,633)
FINANCING ACTIVITIES					
Advance from related parties	—	50,284	65,629	—	65,629
Repayment of obligation under capital leases	(3,512)	—	—	—	(3,512)
Proceeds from issuance of common shares *[note 11]*	60	—	845,188	60,000	905,248
Cash provided by (used in) financing activities	(3,452)	50,284	910,817	60,000	967,365
Net increase (decrease) in cash during the period	(200,428)	21,138	272,861	12,672	85,105
Cash, beginning of period	285,533	12,672	12,672	—	—
Cash, end of period	85,105	33,810	285,533	12,672	85,105
Supplemental cash flow information					
Interest paid	129	—	1,283	—	1,283

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Transition Therapeutics Inc. [the "Corporation"] [formerly Transition Therapeutics and Diagnostics Inc.] is a biopharmaceutical development company, incorporated on July 6, 1998 under the Business Corporations Act (Ontario). The Corporation is engaged in the business of developing therapeutic agents that prevent and inhibit inflammatory and fibrotic diseases through disease specific, non-toxic mechanisms. To date, the Corporation has not earned significant revenues and is considered to be in the development stage.

These consolidated financial statements include the accounts of Transition Therapeutics Leaseholds Inc., its wholly-owned subsidiary, incorporated on March 10, 2000 under the Business Corporations Act (Ontario).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Collaboration revenue represents amounts received from the Corporation's research partners and is recognized as services are provided based on the achievement of certain technical milestones as set out in the terms of the agreements. Product revenue, which consists of sales of reagents, is recognized upon shipment.

Interest income is recognized on an accrual basis.

Capital assets

Capital assets are recorded at cost and are amortized on a declining balance basis over their estimated useful lives as follows:

Computer equipment	30%
Office equipment and furniture	20%

The leasehold improvements are recorded at cost and amortized on a straight-line basis over the term of the lease.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

Research and development

Research costs are expensed as incurred. Development costs that meet specific criteria related to technical, market and financial feasibility are capitalized. To date, all of the development costs have been expensed.

Stock-based compensation plan

The Corporation has a stock-based compensation plan which is described in note 6. No compensation expense is recorded for this plan when options are issued to employees or directors. Any consideration paid by employees or directors on exercise of stock is credited to share capital.

Income taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Financial instruments

Financial instruments of the Corporation consist mainly of cash, short-term investments, share subscription receivable, GST receivable, accrued accounts receivable, investment tax credits, accounts payable and accrued liabilities, due to related parties and obligation under capital leases. As at September 30, 2000, June 30, 2000 and 1999, there are no significant differences between the carrying value of these amounts and their estimated market values

Use of estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

3. SHORT-TERM INVESTMENTS

Short-term investments consists of a term deposit of $40,000 at September 30, 2000 [June 30, 2000 - $40,000; June 30 1999 – nil] with an interest rate at September 30, 2000 of 4.1% [June 30, 2000 – 4.1%; June 30, 1999 – nil] and a maturity date of April 1, 2001.

4. SHARE SUBSCRIPTION RECEIVABLE

Included in share subscription receivable are amounts due from various shareholders to purchase common shares of the Corporation. The share subscription receivable is non-interest bearing with no fixed repayment terms. Subsequent to September 30, 2000, all amounts have been collected.

5. CAPITAL ASSETS

Capital assets consist of the following:

	September 30, 2000		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Computer equipment	30,356	3,681	26,675
Office equipment and furniture	91,554	7,478	84,076
Leasehold improvements	43,749	864	42,885
	165,659	12,023	153,636

Included in computer equipment and office equipment and furniture at June 30, 2000, is equipment under capital lease of $67,026.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

	June 30, 2000		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Computer equipment	30,356	1,518	28,838
Office equipment and furniture	91,554	3,052	88,502
Leasehold improvements	42,921	715	42,206
	164,831	5,285	159,546

6. CAPITAL STOCK

[a] Authorized

Unlimited common shares

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

[b] Issued and outstanding and changes during the period

Common shares	#	$
Balance, July 6, 1998	3	1
Issuance for cash	6,512,980	200
Repurchase for cash	(6,512,983)	(201)
Issuance for note receivable	1,302,592	125,000
Issuance for employment services	28,982	1
Issuance for consulting services	195,389	6
Balance, June 30, 1999	1,526,963	125,007
Issuance for cash	1,994,083	845,032
Issuance for employment services	6,451,427	198
Issuance for consulting services	211,672	7
Issuance to founder	732,710	22
Balance, June 30, 2000	10,916,855	970,266
Issuance for cash	1,953,894	60
Issuance for employment services	553,603	17
Issuance for consulting services	162,824	5
Issuance for laboratory services	162,824	5
Balance, September 30, 2000	**13,750,000**	970,353

[c] Stock option plan

In November 1999, the Corporation established a Stock Option Plan [the "Plan"] for the directors, officers, employees, members of the Scientific Advisory Board and consultants of the Corporation or of subsidiaries of the Corporation in order to secure for the Corporation and its shareholders the benefit of an incentive interest in share ownership by participants under the Plan. The Plan is administered by the Board of Directors of the Corporation or the Compensation Committee of the Corporation.

All stock options granted under the Plan must be exercised within a maximum period of five years following the grant date thereof. The maximum number of common shares that may be issued pursuant to stock options granted under the Plan shall not exceed 10% of the issued and outstanding common shares, to a maximum of 2,100,000 common shares. The maximum number of common shares that may be issued to any individual pursuant to stock options granted under the Plan will not exceed 5% of the outstanding common shares and the total number of common shares that may be

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

issued to consultants pursuant to stock options granted under the Plan will not exceed 2% of the issued and outstanding common shares.

As at September 30, 2000, June 30, 2000 and 1999 no stock options have been issued under this Plan.

7. INCOME TAXES

[a] The Corporation has accumulated losses for income tax purposes of approximately $326,000 at June 30, 2000 which can be carried forward to reduce future Canadian taxable income. These income tax loss carryforwards will begin to expire in 2006.

The Corporation also has approximately $171,000 as at June 30, 2000 in Canadian scientific research expenditures which can be carried forward indefinitely to reduce future years' taxable income. In connection with these expenditures, the Corporation has recorded $80,400 of refundable investment tax credits earned during the year ended June 30, 2000.

[b] Significant components of the Corporation's future tax assets and future tax liabilities are as follows:

	2000 $	1999 $
Future tax assets		
Patent costs	14,655	8,939
Non-capital loss carryforwards	143,440	2,948
Canadian scientific research expenditures	75,240	4,910
Total future tax assets	233,335	16,797
Future tax liabilities		
Investment tax credits	(35,376)	(546)
Capital assets	(218)	—
Total future tax liabilities	(35,594)	(546)
Less valuation allowance	197,741	16,251
	—	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

8. RELATED PARTY TRANSACTIONS

[a] The Corporation entered into a License Agreement with the Cangene Corporation ["Cangene"] on January 20, 2000 to acquire RHAMM technology. On October 10, 2000, Dr. John Langstaff became a Director of the Corporation. He is also the President and Chief Executive Officer of Cangene. Total financial consideration due to Cangene will be $516,400, $400,000 of which will be provided of the next two years of the Agreement, depending on the achievement of certain milestones plus a 1.0% to 1.5% royalty of net sales. As at June 30, 2000, $52,700 of the total amount owing has been paid. At the same time, the Corporation and Cangene will jointly research and develop products for tissue wound healing and each party will provide up to $1,000,000 over the first two years of the agreement with each party contributing equal amounts and equally sharing profits. The Corporation and Cangene will also jointly research and develop products for cancer and each party will provide up to $500,000 over the first two and a half years of the agreement with each party contributing equal amounts and equally sharing profits. If the sum of royalties and/or net profit paid to Cangene as resulting from the sale of a product derived from the patent applications licensed to the Corporation does not meet certain minimum requirements [as specified in the Agreement] during the first and subsequent years of the commercialization of any such product, Cangene may either terminate the Agreement or may cause the license granted thereby to the Corporation to become non-exclusive for the remaining period of such agreement. During the three-month period ended September 30, 2000, the Corporation incurred approximately $48,600 of expenditures [June 30, 2000 - $129,000; June 30, 1999 - nil]. Cangene's proportionate share of these expenses of $24,300 for the three month period ended September 30, 2000 [June 30, 2000 - $64,500] is reflected as collaboration revenue. The amount of $24,300 at September 30, 2000 has not yet been invoiced to Cangene and accordingly is reflected as accrued accounts receivable at the respective date.

[b] The Corporation has issued 162,824 common shares for nominal consideration to the Canadian Arthritis Network ["CAN"] for past and future services and laboratory facilities provided by CAN to the Corporation. The Corporation is obligated to make semi-annual payments of $20,000 commencing January 1, 2001 to June 1, 2002. The President and CEO of the Corporation is the Director, Senior Officer and Program Director of CAN.

[c] The amount due to related parties is comprised of a non-interest bearing loan of $15,629 from an officer of the Corporation and a $50,000 payable, which is non-interest bearing, to HDM Diagnostic and Imaging Inc., a company controlled by the President and CEO of the Corporation and are due on demand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

9. RESEARCH AND DEVELOPMENT PROJECTS

[i] **Treatment of Multiple Sclerosis**

Although the causes of MS are unknown, current scientific belief is that genetic, environmental and immunological factors are responsible for a co-ordinated attack on myelin. The hallmark lesion in MS is a demyelinated area in which the axon is surrounded by certain cell processes. The accompanying inflammatory reaction is characterized by an infiltration of lymphocytes and macrophages into the central nervous tissue. Cytokines and macrophage activation play an important role in the breakdown of the blood brain barrier which eventually leads to the loss of myelin and motor function. The Coporation's animal studies have shown that RHAMM peptides and mimetics inhibit migration and invasion of macrophages and certain other cell types.

Dr. Mario Moscarello at the Hospital for Sick Children examined the effect of The Corporation's peptides on a transgenic animal model for MS. Transgenic animals were treated with Transition's peptides for periods of 12 to 15 weeks. The Corporation's peptides were shown to be highly effective in inhibiting the clinical signs of MS when compared to untreated animals. Further, the animals treated with the Corporation's peptides did not exhibit any signs of gross toxicity, such as loss of weight or diarrhea. The Corporation is currently testing several peptides in animal models in order to select a leading peptide candidate with maximal efficacy and minimal complications upon which to base a product candidate for the possible treatment of MS.

	$
Research and development expenses for the year ended June 30, 2000	52,726
Research and development expenses for the three-month period ended September 30, 2000	9,313
Cumulative research and development expenses	62,039

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

[ii] **Treatment of Diabetes**

Although the cause of Type I diabetes is not known, there is a characteristic loss of islet cells and an eventual decrease in insulin production. It is believed that inflammatory cells may play a key role in the destruction of islet cells. Agents which inhibit inflammatory cells or stimulate islet cell proliferation may be effective in reversing the disease. Several animal models exist which are used to select candidate therapeutic agents for the treatment of diabetes, including NOD mice.

In studies conducted by Dr. David Hart of the University of Calgary, the Corporation's peptides were examined for their effects on treating Type I diabetes in a NOD animal model. Untreated animals exhibited an incidence of glucose in their blood and urine of approximately 80%. Animals treated with the Corporation's peptides for 23 weeks did not develop the disease as evidenced by normal glucose levels. Such data suggest that the Corporation's peptides inhibit disease onset in an established model for Type I diabetes and may have therapeutic uses for the treatment of such disease. The Corporation is currently studying the selection of a leading peptide candidate that it will use for pre-clinical studies that may lead to an IND submission in respect of the treatment of diabetes.

	$
Research and development expenses for the year ended June 30, 2000	47,983
Research and development expenses for the three-month period ended September 30, 2000	9,313
Cumulative research and development expenses	57,296

[iii] **Treatment of Obesity**

The Corporation has examined the effect of its peptides in an animal model that develops abnormal fat deposition. Animals treated with the Corporation's peptide prior to fat deposition did not develop the fat pad, as did the untreated mice. Further, treatment with the Corporation's peptides when the fat pad is already present resulted in a loss of fat. These data are suggestive that the Corporation’s peptide may be useful for the treatment of obesity. The Corporation is planning to use other accepted obesity animal models in order to determine the efficacy of its peptides in relation to the treatment of obesity. Depending on the outcome of these studies, the Corporation intends to make a decision regarding whether to develop its peptides for the treatment of obesity.

No costs have been incurred to September 30, 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

[iv] **Treatment of Restenosis**

Restenosis involves macrophage infiltration, abnormal matrix remodelling and smooth muscle cell invasion. The Corporation's scientists have reported that RHAMM levels are enhanced in animal models of vascular injury. Previous data has demonstrated that the Corporation peptides inhibit smooth muscle cell migration, a key feature of restenosis. In collaboration with Dr. Bradley Strauss and Dr. Michelle Bendeck of St. Michael's Hospital and the University of Toronto, respectively, the Corporation has initiated several animal studies in order to examine the effect of several peptides on injury and stent induced restenosis. The Corporation intends to develop both a systemic formulation that would have a broad application with devices or procedures that cause restenosis, as well as an application for the local delivery of peptides on cardiovascular stents. Should such technology be validated, the Corporation intends to seek a device manufacturer for the development of this product. Drug coated cardiovascular devices would require approval as a device from the appropriate regulatory bodies, whereas the systemic formulation would require approval through the therapeutic drug process. The Corporation intends, based on the results of its studies, to select the regulatory route that it will pursue in seeking approval for any product which it may develop for the treatment of restenosis.

	$
Research and development expenses for the year ended June 30, 2000	22,068
Research and development expenses for the three-month period ended September 30, 2000	4,511
Cumulative research and development expenses	26,579

[v] **Treatment of Scarring/Wound Healing**

RHAMM is expressed in skin immediately following wounding and is present until healing is near completion. The Corporation has found, based on animal studies, that treatment of surgical wounds with its peptides results in a decrease in collagen I and III expression and deposition in the scar tissue. Further, the Corporation's peptide treatment reduced macrophage infiltration into the wound. The broad range of effects on inflammatory diseases, combined with the inhibition of these processes, indicates that the Corporation's peptides may be useful for the treatment of scarring in response to incisions, burns or wounding. The Corporation has currently synthesized a leading peptide under GMP conditions for the preparation of a gel formulation for topical

treatments of scars following incisional wounds. These formulations will be used for the pre-clinical toxicity studies.

	$
Research and development expenses for the year ended June 30, 2000	157,740
Research and development expenses for the three-month period ended September 30, 2000	34,970
Cumulative research and development expenses	192,710

10. COMMITMENTS

[i] On November 9, 1999, the Corporation entered into a license agreement with HSC Research Limited Partnership ["HSC"] to acquire Dr. Eva Turley's interests in the Corporation's patent application US 910130.401 that had been previously assigned to HSC. Total financial consideration due to HSC from the Corporation will be up to $465,000 depending on the outcome of certain clinical results which can be satisfied through a combination of upfront payments, milestone payments and annual license fees. As at September 30, 2000 $140,350 [June 30, 2000 - $116,384] of the commitment has been paid.

[ii] On December 20, 1999, the Corporation entered into a letter agreement with the Mount Sinai Hospital ["MSH"] to acquire Dr. Tony Cruz's interests in the Corporation's patent application US 910130.401 that had been previously assigned to MSH. Total financial consideration due to MSH from the Corporation will be up to $116,250 depending on the outcome of certain clinical results which can be satisfied through a combination of upfront payments, milestones payments and annual license fees with payments to be no greater than 25% of the fees payable to HSC under the Corporation's license agreement. As of June 30, 2000, $15,000 is owed to MSH for payments due in the first year of the agreement.

[iii] On January 20, 2000, the Corporation entered into a License Agreement with Cangene to acquire RHAMM technology *[note 8[a]]*.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

[iv] The Corporation leases telephone, photocopier and computer equipment under capital leases expiring at various dates to June 2005. Future minimum annual lease payments under these leases in aggregate and over the next five years and thereafter are as follows:

Years ended June 30	$
2001	21,845
2002	21,845
2003	20,907
2004	10,595
2005	8,918
Thereafter	1,633
	85,743
Less imputed interest	18,717
	67,026
Less current portion	14,705
	52,321

[v] The Corporation has entered into an agreement for future minimum payments under an operating lease for premises. The lease term ends April 30, 2005 and can be renewed for additional five years at a negotiated rate. Future minimum annual lease payments under certain operating leases for premises in aggregate and over the next five years are as follows:

Years ended June 30	$
2001	25,886
2002	26,502
2003	30,200
2004	33,898
2005	30,817
	147,303

In connection with entering into this premises lease, the Corporation received a lease inducement of $36,980 which was used to construct leasehold improvements and which has been deferred and is being amortized on a straight-line basis over the term of the lease.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

11. STATEMENT OF CASH FLOWS

During the year, the Corporation entered into the following non-cash activities:

[i] Leasehold inducements were received relating to leasehold inducements of $36,980 [June 30, 2000 - $36,980; June 30, 1999 – nil].

[ii] Capital assets were acquired under capital leases of nil [June 30, 2000 - $67,026; June 30, 1999 – nil].

[iii] Issuance of common shares for non-cash consideration of $27 at September 30, 2000 [June 30, 2000 - $71; June 30, 1999 - $7]

12. SUBSEQUENT EVENTS

[i] On October 12, 2000 and October 19, 2000, the Corporation filed articles of amendment to create Class B shares. The holders of Class B shares are entitled to receive notice of, and to attend, any meeting of shareholders of the Corporation, but are not entitled to vote any Class B shares at any such meeting. The holders of Class B shares are entitled to participate rateably with the common shares in any distribution of the assets of the Corporation pursuant to a liquidation, dissolution or winding-up of the Corporation or other distribution of assets. The Class B shares are not subject to any future call or assessment and there are no pre-emptive, conversion or redemption rights attached to such shares, except that each Class B share may at any time be converted, at the option of the holder thereof, into one common share upon the provision of written notice of such conversion to the Corporation by the holder thereof.

[ii] On October 20, 2000, the Corporation completed a private placement of an aggregate 6,500,000 Special Warrants, at a price of $0.80 per Special Warrant. The gross proceeds were $5,200,000 and financing expenses were $256,000. Each Special Warrant entitles the holder thereof to acquire, for no additional consideration and subject to adjustment in certain circumstances: [i] if exercised prior to the closing of the Offering, one Class B share and one-half of one Class B Warrant [a "Unit"]; and [ii] if exercised or deemed exercised on the closing of the Offering, the greater of [x] one Unit, and [y] that number of Units equal to $0.98 divided by the Offering Price if the Offering Price is less than $0.98 per common share. Each whole Class B Warrant entitles the holder thereof to acquire one additional Class B share at a price per share equal to the Offering price until the date that is 10 months after the Closing Date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[all amounts as at September 30, 2000 and for the three-month periods ended September 30, 2000 and September 30, 1999 are unaudited]

June 30, 2000

[iii] On October 25, 2000, the Corporation granted to its directors [75,000], officers [195,000] and employees [90,000] and consultants [280,000] options to purchase up to 640,000 common shares at an exercise price of $0.80. The options expire on October 24, 2005.

[iv] Pursuant to an agency agreement dated •, 2001, the Corporation proposes to sell an aggregate of • common shares at a price of $• per share [the "Offering"]. The net proceeds of the Offering are estimated to be $• after deduction of the agent's commission of $• and estimated expenses of $•.

At the [Closing Date ••••], the Corporation intends to grant to three [3] of its employees stock options to purchase a total of 40,000 common shares at the Offering price vesting as to 10,000 common shares on the each of the next four anniversaries of the Closing Date.

At the Closing Date, the Corporation intends to grant to a consultant 225,000 stock options to purchase a total of 225,000 common shares at the Offering price vesting as of the Closing Date.

CERTIFICATE OF THE CORPORATION

December 21, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by Transition Therapeutics Inc. pursuant to this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), and by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

(signed) DR. TONY CRUZ	(signed) LOUIS ALEXOPOULOS
President and Chief Executive Officer	Chief Financial Officer and Secretary

ON BEHALF OF THE BOARD OF DIRECTORS

(signed) CHRISTOPHER M. HENLEY	(signed) Dr. JOHN LANGSTAFF
Director	Director

CERTIFICATE OF THE PROMOTER

December 21, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by Transition Therapeutics Inc. pursuant to this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta) and by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

(signed) DR. TONY CRUZ

CERTIFICATE OF THE AGENT

December 21, 2000

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by Transition Therapeutics Inc. pursuant to this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta) and by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

CANACCORD CAPITAL CORPORATION

(signed) BRAD GRIFFITHS

The following includes the names of each person having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of Canaccord Capital Corporation:

Peter M. Brown (through The MacLachlan Investments Corporation)
Bradley D. Griffiths (through 3759971 Canada Inc.)
Michael G. Greenwood (directly and through 728541 Alberta Ltd.)

Their interests are held indirectly through Canaccord Investment Ltd. and Canaccord Holdings Ltd.