AGENCY AGREEMENT

February 19, 2001

Transition Therapeutics Inc.
Suite 1103, 415 Yonge Street
TORONTO ON M5B 2E7

ATTENTION: Dr. Tony Cruz, President and CEO

Dear Sirs:

RE: Initial Public Offering of Common Shares

Transition Therapeutics Inc. (the “Corporation”) proposes to issue up to 4,000,000 Common Shares (the "Firm Shares") in the capital of the Corporation and up to an additional number of Common Shares in the capital of the Corporation equal to 10% of the Firm Shares (the "Over-Allotment Shares" and, together with the Firm Shares, the "Offered Shares") if the Over-Allotment Option (as hereinafter defined) is exercised, at a price of $1.25 per Offered Share (the "Offering Price").

The Offering (as hereinafter defined) shall be effected by a Prospectus to be filed in each of the Qualifying Jurisdictions (as hereinafter defined). The Prospectus shall qualify the following securities of the Corporation: (a) the Offered Shares; (b) the Class B Shares and Class B Warrants (both as hereinafter defined); (c) one-half of the Compensation Warrants (as hereinafter defined); and (d) the Common Shares in the capital of the Corporation (the "Stock Option Shares") to be issued pursuant to the Corporation's stock option plan in connection with the Offering.

Subject to the terms and conditions hereof, Canaccord Capital Corporation (the "Agent") agrees to act, and the Corporation appoints the Agent, as the sole and exclusive agent of the Corporation, to use its reasonable best efforts to sell the Offered Shares in the provinces of British Columbia, Alberta and Ontario in accordance with Schedule "A" to this Agreement. The Agent agrees to use its reasonable best efforts to secure subscriptions for the Offered Shares.

In consideration for its services hereunder, including assisting in the preparation and finalization of the Preliminary Prospectus and Prospectus (both as hereinafter defined), the Agent shall be entitled to the fee provided for in paragraph 6 hereof. For greater certainty, the services provided by the Agent in connection herewith will not be subject to the Goods and Services Tax provided for in the *Excise Tax Act* (Canada) and taxable supplies provided will be incidental to the exempt financial services provided.

The Corporation hereby grants to the Agent a non-transferable option (the "Over-Allotment Option") to offer for sale to the public in the Qualifying Jurisdictions pursuant hereto up to that number of Common Shares as is equal to 10% of the number of Firm Shares sold pursuant to the

Offering (the "Over-Allotment Shares") for a purchase price of $1.25 per share, which option is exercisable on or prior to 5:00 p.m. (Toronto time) on the date which is 30 days following the date upon which the Common Shares are first listed for trading on the CDNX. Delivery of and payment for any Over-Allotment Shares shall be made at the offices of Fasken Martineau DuMoulin LLP, Toronto, Ontario, at such time (the "Over-Allotment Time of Closing") and on such date (the "Over-Allotment Closing Date") which may be the same as the Closing Date but shall in no event be earlier than the Closing Date nor earlier than three nor later than seven Business Days after the giving of a written notice, which must be given by the Agent to the Corporation, setting out the number of Over-Allotment Shares to be purchased by the Agent. Upon the giving of such notice, the Agent shall be committed to purchase and the Corporation shall be committed to sell in accordance with and subject to the provisions hereof the number of Over-Allotment Shares therein indicated. Over-Allotment Shares may be purchased by the Agent only for the purposes of covering over-allotments made in connection with the offering of the Firm Shares.

As additional consideration for the services rendered by the Agent herein, the Corporation shall issue to the Agent at the Closing Time, a non-assignable warrant which shall entitle the Agent to purchase that number of Common Shares as is equal to 10% of the Common Shares sold pursuant to the Offering, exercisable at the Offering Price at any time prior to the date which is eighteen (18) months after the Closing Date.

Terms and Conditions

This offer shall be subject to the additional terms and conditions set forth below:

1. Definitions

(a) In this Agreement:

(i) "**Agent's counsel**" means Donahue Ernst & Young LLP, or such other legal counsel as the Agent, with the consent of the Corporation, may appoint;

(ii) "**Agreement**" means this Agreement, the recitals, the schedules attached hereto and any amendments thereto or hereto;

(iii) "**Applicable Securities Laws**" includes all applicable securities laws, rules, regulations, notices and published policies of the Qualifying Jurisdictions;

(iv) "**Business Day**" means a day which is not a Saturday, Sunday or statutory civic holiday in Toronto, Ontario;

(v) "**CDNX**" means the Canadian Venture Exchange Inc.;

(vi) "**Class B Shares**" means the non-voting Class B Shares in the capital of the Corporation issuable without additional payment upon the exercise or deemed exercise of the Special Warrants;

(vii) "**Class B Warrants**" means the 3,250,000 warrants of the Corporation to purchase Class B Shares, issuable without additional payment upon the exercise or deemed exercise of the Special Warrants, and entitling the holder thereof to purchase one Class B Share for every two Class B Warrants held;

(viii) "**Closing**" means the completion of the issue and sale of the Firm Shares contemplated by this Agreement on the Closing Date as herein provided;

(ix) "**Closing Date**" means the date upon which the Closing occurs which date shall be agreed to between the Corporation and the Agent and shall not be later than March 2, 2001 unless the parties mutually agree otherwise;

(x) "**Closing Time**" means 8:00 a.m. (Toronto time) or such other time, on the Closing Date, as the Agent and the Corporation may agree and such date is permitted by the Securities Commissions;

(xi) "**Common Share**" or "**Common Shares**" means a common share or the common shares in the capital of the Corporation;

(xii) "**Compensation Warrants**" means the non-assignable warrant granted to the Agent pursuant to paragraph 6 hereof entitling the Agent to purchase such number of Common Shares as is equal to 10% of the number of Common Shares sold pursuant to the Offering at an exercise price equal to the Offering Price, which warrants shall be exercisable, in whole or in part, for a period commencing on the Closing Date and expiring on the date which is eighteen (18) months after the Closing Date;

(xiii) "**Compensation Warrant Certificate**" means a certificate issued on the Closing Date to evidence the Compensation Warrants in the form attached as Schedule "B" hereto;

(xiv) "**Corporation**" means Transition Therapeutics Inc.;

(xv) "**Corporation’s counsel**" means Fasken Martineau DuMoulin LLP, or such other legal counsel as the Corporation, with the consent of the Agent, may appoint (provided that Fasken Martineau DuMoulin LLP may in giving opinions, attach and rely upon, as to corporate matters only, the opinion of Sotos Associates);

(xvi) "**Financial Statements**" means the consolidated financial statements of the Corporation contained in the Prospectus;

(xvii) "**Offered Shares**" has the meaning ascribed thereto in the first paragraph of this Agreement;

(xviii) "**Offering**" means the offering of Offered Shares and Compensation Warrants pursuant to the Prospectus and in accordance with this Agreement;

(xix) "**Optioned Shares**" means the Common Shares issuable upon exercise of the Compensation Warrants;

(xx) "**Over-Allotment Shares**" has the meaning attributed thereto in the fifth paragraph of this Agreement;

(xxi) "**Over-Allotment Option**" has the meaning attributed thereto in the fifth paragraph of this Agreement;

(xxii) "**Preliminary Prospectus**" means the preliminary prospectus of the Corporation dated December 21, 2000 in respect of the qualification for distribution of the Offered Shares, the Compensation Warrants, the Class B Shares, the Class B Warrants and the Stock Option Shares;

(xxiii) "**Prospectus**" means the final prospectus of the Corporation, and any amendments thereto, in respect of the qualification for distribution of the Offered Shares, the Compensation Warrants, the Class B Shares, the Class B Warrants and the Stock Option Shares;

(xxiv) "**Qualifying Jurisdictions**" means the provinces of British Columbia, Alberta, Ontario and such other jurisdictions as the Corporation and the Agent shall agree;

(xxv) "**Securities Commissions**" means the securities commissions or similar regulatory authorities in the Qualifying Jurisdictions;

(xxvi) "**SEDAR**" means the System for Electronic Document Analysis and Retrieval;

(xxvii) "**Special Warrants**" means the 6,500,000 special warrants of the Corporation issued on October 20, 2000 at a price of $0.80 per Special Warrant, entitling the holder thereof, upon the exercise or deemed exercise of a Special Warrant and without additional payment, to acquire one Class B Share and one-half of one Class B Warrant;

(xxviii) "**Stock Options**" means options to acquire Common Shares pursuant to the Corporation's stock option plan;

(xxix) "**Stock Option Shares**" means the Common Shares issuable upon exercise of the Stock Options to be qualified for distribution by the Prospectus;

(xxx) "**Subscriber**" or "**Subscribers**" means a person or those persons who are resident in the Qualifying Jurisdictions and subscribe for the Offered Shares through the Agent or such other investment dealers retained by the Agent as sub-agents to sell subscriptions in conjunction with the Agent;

(xxxi) "**Subscription Funds**" means all funds received with respect to all Successful Subscriptions in accordance with the terms and provisions of this Agreement;

(xxxii) "**Successful Subscription**" means a subscription for Offered Shares by a Subscriber which subscription has been accepted by the Corporation and the Agent;

(xxxiii) "**Subsidiary**" means a subsidiary (within the meaning of the *Business Corporations Act* (Ontario)) of the Corporation and “**Subsidiaries**” has a corresponding meaning;

(xxxiv) "**material change**", "**material fact**" and "**misrepresentation**" shall have the meanings ascribed thereto under the Applicable Securities Laws or any of them, "**distribution**" means "**distribution**" or "**distribution to the public**", as the case may be, as defined under the Applicable Securities Laws and "**distribute**" has a corresponding meaning.

(b) For the purposes of this Agreement, all references to "dollars" or "$" shall mean Canadian funds, unless otherwise specified.

(c) Words importing the singular number only shall include the plural and vice versa and words of gender shall entail all genders and words importing persons shall include companies, corporations, partnerships, syndicates, trusts and any number or aggregate of persons.

2. <u>Representations and Warranties of Corporation</u>

The Corporation represents and warrants to the Agent, and acknowledges and agrees that the Agent is relying upon such representations and warranties, that as at the date hereof:

(a) each of the Corporation and Transition Therapeutics Leaseholds Inc. has been duly incorporated and is validly subsisting under the laws of the jurisdiction where it was incorporated, formed or continued and has all requisite corporate power and capacity to carry on its business as now conducted and as presently proposed to be conducted by it and to own its property and assets;

(b) each of the Corporation and Transition Therapeutics Leaseholds Inc. is qualified to carry on business under the laws of each jurisdiction in which it presently carries on its business;

(c) the only Subsidiary of the Corporation is Transition Therapeutics Leaseholds Inc.;

(d) the only asset of Transition Therapeutics Leaseholds Inc. is the lease in respect of the Corporation's premises at Suite 1103, 415 Yonge Street, Toronto, Ontario; Transition Therapeutics Leaseholds Inc. has no liabilities other than its obligations under such lease;

(e) the Corporation has full corporate power and authority to issue the Offered Shares, the Stock Option Shares and the Compensation Warrants and to issue the Optioned Shares issuable upon exercise of the Compensation Warrants and, at the Closing Date: (i) the Firm Shares will be duly and validly authorized and issued; (ii) the Stock Option Shares issuable upon the exercise of the Stock Options will be duly and validly authorized and reserved for issuance upon such exercise and will, upon exercise of the Stock Options in accordance with the terms thereof, be issued as fully paid and non-assessable shares; (iii) the Compensation Warrants will be duly and validly created, authorized and issued; (iv) the Optioned Shares issuable upon the exercise of the Compensation Warrants will be duly and validly authorized and reserved for issuance upon such exercise and will, upon exercise of the Compensation Warrants, be issued as fully paid and non-assessable shares;

(f) the Special Warrants have been duly and validly created, authorized and issued; and the Class B Shares and Class B Warrants issuable upon the exercise of the Special Warrants have been duly and validly authorized and reserved for issuance upon such exercise and will, upon exercise of the Special Warrants in accordance with the terms of the subscription agreements entered into in connection with the issue of the Special Warrants, be issued as fully paid and non-assessable shares;

(g) the Corporation is not in default or breach of, and the execution and delivery of, and the performance of and compliance with the terms of this Agreement and the Compensation Warrants by the Corporation do not and will not result in any breach of, or constitute a default under, and do not and will not create a state of facts which, after notice or lapse of time or both, would result in a breach of or constitute a default under, any term or provision of the articles or by-laws of the Corporation or resolutions of the directors or of the shareholders of the Corporation, or any mortgage, note, indenture, contract, agreement (written or oral), instrument, lease or other document to which the Corporation is a party or by which it is bound, or any judgment, decree, order, statute, rule or regulation applicable to the Corporation, which default or breach might reasonably be expected to materially adversely affect the business, operations, capital or condition (financial or otherwise) of the Corporation and its Subsidiary, taken as a whole;

(h) the Corporation has full corporate power and capacity to enter into this Agreement, and the Compensation Warrant Certificate and to perform its obligations set out herein and therein, and this Agreement has been, and the Compensation Warrant Certificate will on the Closing Date be, duly authorized, executed and delivered by the Corporation and this Agreement and the Compensation Warrant Certificate will on the Closing Date be legal, valid and binding obligations of the Corporation, enforceable against the Corporation in accordance with their respective terms, subject to the general qualifications that:

(i) enforceability may be limited by bankruptcy, insolvency or other laws affecting creditors' rights generally;

(ii) equitable remedies, including the remedies of specific performance and injunctive relief, are available only in the discretion of the court; and

(iii) rights to indemnity and contribution hereunder may be limited under applicable law;

(i) the information and statements contained in the Preliminary Prospectus and the Prospectus (except any information and statements relating solely to the Agent) constitute full, true and plain disclosure of all material facts relating to the Corporation and the Prospectus complies in all material respects with Applicable Securities Laws. The Preliminary Prospectus and the Prospectus do not contain a misrepresentation (except a misrepresentation which is based upon information relating solely to the Agent and furnished to the Corporation by the Agent expressly for inclusion in the Preliminary Prospectus and Prospectus);

(j) the authorized share capital of the Corporation is as disclosed under the heading "Description of Share Capital" in the Prospectus, and 13,750,000 Common Shares are issued and outstanding as is disclosed in the Prospectus and all of the issued and outstanding Common Shares have been duly issued and are fully paid and non-assessable shares. No person, firm or corporation has any agreement with the Corporation, nor has the Corporation granted any option, right or privilege, whether pre-emptive or contractual, capable of becoming an agreement with the Corporation, including convertible securities, for the purchase, subscription or issuance of any unissued Common Shares or other securities of the Corporation, except as disclosed in the Prospectus;

(k) to the knowledge of management of the Corporation, none of the directors or senior officers of the Corporation, any holder of more than ten percent (10%) of the Common Shares outstanding, any promoters of the Corporation, or any associate or affiliate of any of the foregoing persons or companies (as such terms are defined by Applicable Securities Laws) has had any direct or indirect material interest in any material transaction involving the Corporation since the incorporation of the Corporation and none of such persons currently has any direct or indirect material interest in any material transaction, which materially affects or, is material to the Corporation, except as stated in the Prospectus, in which is fully set forth the relevant particulars required by Applicable Securities Laws;

(l) the Financial Statements fairly present in accordance with generally accepted accounting principles in Canada, consistently applied, the financial position and condition of the Corporation on a consolidated basis at the date thereof and the results of the operations of the Corporation on a consolidated basis for the periods then ended and, without limitation, reflect all material assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of the Corporation and its Subsidiary taken as a whole as at the dates thereof in accordance with generally accepted accounting principles in Canada;

(m) other than as disclosed in the Prospectus or in writing to the Agent, since the date of the Financial Statements, there has not been any material adverse change in the capital, assets, liabilities or obligations (absolute, accrued, contingent or otherwise), business operations, financial condition, results of operations or prospects of the Corporation;

(n) since the date of the Financial Statements, the Corporation has not incurred, assumed or suffered any liability (absolute, accrued, contingent or otherwise) or entered into any transaction which is or may reasonably be expected to be material to the Corporation and is not in the ordinary course of business, except as disclosed in the Prospectus, as contemplated by this Agreement or as disclosed in writing to the Agent prior to the date hereof;

(o) except as disclosed in the Prospectus, there is no action, proceeding or investigation (whether or not purportedly on behalf of the Corporation) pending, or to the knowledge of the Corporation, after due enquiry of its directors and officers, threatened against or affecting the Corporation, at law or in equity or before or by any court or federal, provincial, municipal or other government department, commission, board or agency, domestic or foreign, which in any way materially adversely affects the Corporation, or the condition (financial or otherwise) of the Corporation or which questions the validity of the issuance, as fully paid and non-assessable of any of the Offered Shares, the Compensation Warrants, the Optioned Shares, the Special Warrants, the Class B Warrants, the Class B Shares or the Stock Option Shares or of any action taken or to be taken by the Corporation pursuant to or in connection with this Agreement;

(p) the performance by the Corporation of all material contracts to which the Corporation is a party (including those listed in the Prospectus under the heading "Material Contracts") and the performance and compliance with the terms of all such material contracts by the Corporation do not and will not result in any breach of, or constitute a default under, and do not and will not create a state of facts which, after notice or lapse of time or both, would result in a breach of or constitute a default under, any term or provision of the articles or by-laws of the Corporation or resolutions of the directors or of the shareholders of the

Corporation, or any mortgage, note, indenture, contract, agreement (written or oral), instrument, lease or other document to which the Corporation is a party or by which it is bound or any judgment, decree, order, statute, rule or regulation applicable to the Corporation which default or breach might reasonably be expected to materially adversely affect the business, operations, capital or condition (financial or otherwise) of the Corporation and the Subsidiary taken as a whole;

(q) the minute books of the Corporation and its Subsidiary are true and correct and contain the minutes of all meetings and all the resolutions of directors and shareholders thereof and all such meetings were duly called and properly held and all such resolutions were properly adopted, except to the extent that any such failure would not reasonably be expected to have a material adverse effect on the Corporation and its Subsidiary, taken as a whole;

(r) each of the Corporation and its Subsidiary has conducted and is conducting its business in compliance in all material respects with all applicable laws, rules and regulations and, in particular, all applicable licensing and environmental legislation, regulations or by-laws or other lawful requirement of any governmental or regulatory bodies applicable to the Corporation and its Subsidiary, of each jurisdiction in which each of the Corporation and its Subsidiary carries on business and each of them holds all licences, registrations and qualifications in all jurisdictions in which it carries on business which are necessary or desirable to carry on the business of the Corporation and its Subsidiary as now conducted, and all such licenses, registrations or qualifications are valid and existing and in good standing except those the absence of which would not reasonably be expected to have a material adverse effect on the Corporation and its Subsidiary, taken as a whole;

(s) no Securities Commission nor, to the knowledge of the Corporation, any similar regulatory authority of any other jurisdiction has issued any order preventing or suspending trading in any securities of the Corporation and the Corporation is not in default of any requirement of any Applicable Securities Laws;

(t) with such exceptions as are not material to the Corporation and the Subsidiary, taken as a whole, each of the Corporation and its Subsidiary has duly and on a timely basis filed all tax returns required to be filed by it, has paid all taxes due and payable by it and has paid all assessments and re-assessments and all other taxes, governmental charges, penalties, interest and other fines due and payable by it and which are claimed by any governmental authority to be due and owing and adequate provision has been made for taxes payable for any completed fiscal period for which tax returns are not yet required and there are no agreements, waivers, or other arrangements providing for an extension of time with respect to the filing of any tax return or repayment of any tax or governmental charge by the Corporation or its Subsidiary and there are no actions, suits, proceedings, investigations or claims threatened or, to the knowledge of the Corporation pending against the Corporation or its Subsidiary in respect of taxes, governmental charges or assessments or any matters under discussion with any governmental authority relating to taxes, governmental charges or assessments asserted by any such authority;

(u) neither the Corporation nor its Subsidiary is in default in the observance or performance of any term or obligation to be performed by it under any contract to which the Corporation or its Subsidiary is a party or by which it is bound and, to the knowledge of the Corporation, no other party is in default in the observance or performance of any term or obligation to be performed by it under any contract to which the Corporation or its Subsidiary is a party or by which either of them are bound, which contract is material to the business of the Corporation or its Subsidiary and no event has occurred with which notice or lapse of time or both would directly or indirectly constitute such a default, in any such case which default or event would reasonably be expected to have a material adverse effect on the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Corporation or its Subsidiary, taken as a whole;

(v) the Corporation has not paid any dividends or made any other distribution on any of its Common Shares or any other shares of any class since incorporation, except as disclosed in the Prospectus;

(w) other than Transition Therapeutics Leaseholds Inc., the Corporation has no material shareholdings or other ownership interest in any other corporation or business organization;

(x) all statements, facts, data, information and materials provided from time to time by the Corporation to the Agent relating to the Corporation, the directors and officers of the Corporation or the Offering were true and correct in all material respects as at the dates provided and did not contain any misrepresentation and, except as subsequently superseded, updated or amended, continue to be true and correct in all material respects and do not contain any misrepresentations at the date hereof;

(y) there is no person, firm or corporation acting or purporting to act for the Corporation entitled to any brokerage or finders fee in connection with this Agreement or any of the transactions contemplated hereunder, except as provided herein and as referred to in the Prospectus;

(z) the net proceeds received by the Corporation from the sale of the Offered Shares will be applied for the specific purposes more particularly set forth under "Use of Proceeds" in the Prospectus; and

(aa) application has been made to list the Common Shares on the CDNX and conditional approval for such listing has been obtained from the CDNX.

3. Covenants of Corporation

3.1 The Corporation covenants and agrees to and with the Agent and undertakes that:

(a) now and at all times subsequent hereto during the distribution of the Offered Shares to the public, the Prospectus and any amendments thereto do and will fully comply with the requirements of Applicable Securities Laws. The Prospectus provides full, true and plain disclosure of all material facts relating to the Corporation and to the Offered Shares, the Compensation Warrants, the Optioned Shares and the Stock Option Shares and to the distribution of the Offered Shares to the public, and does not contain any misrepresentation; provided that the foregoing covenants of the Corporation do not and shall not apply with respect to statements contained in the Prospectus relating solely to the Agent;

(b) during the period of the distribution of the Offered Shares, the Corporation will promptly inform the Agent and the Agent's counsel in writing of the full particulars of:

(i) any material change (actual, anticipated or threatened) in the business, operations, prospects, capital or condition (financial or otherwise) of the Corporation or its Subsidiary, taken as a whole;

(ii) any change in any material fact contained or referred to in the Prospectus;

(iii) the occurrence of a material fact or event, which, in any such case, is, or may be, of such a nature as to: render the Prospectus untrue, false or misleading in a material respect; result in a misrepresentation in the Prospectus; or result in the Prospectus not complying with Applicable Securities Laws;

(iv) the discovery by the Corporation of any misrepresentation in the Prospectus;

(v) any material change in any statements, facts, personal information, forms or materials provided to the Agent with respect to the directors and officers of the Corporation; and

(vi) any material change in any of the representations and warranties contained in Section 2 of this Agreement;

provided that if the Corporation is uncertain as to whether a material change, change, occurrence or event of the nature referred to in this subparagraph has occurred, the Corporation shall promptly inform the Agent of the full particulars of the occurrence giving rise to the uncertainty and shall consult with the Agent as to whether the occurrence is of such nature;

(c) during the period of distribution of the Offered Shares, the Corporation will promptly inform the Agent or Agent's counsel in writing of full particulars of:

(i) any request of any Securities Commission for any amendment to the Prospectus or for any additional information;

(ii) the issuance by any Securities Commission, any stock exchange or by any other competent governmental or regulatory authority of any order to cease or suspend trading of any securities of the Corporation or of the institution or threat of institution of any proceedings for that purpose; and

(iii) the receipt by the Corporation of any communication from any Securities Commission, any stock exchange or any other competent governmental or regulatory authority which is material to the distribution of the Offered Shares or the listing of the Offered Shares on the CDNX or the distribution of the Offered Shares, the Compensation Warrants, the Optioned Shares or the Stock Option Shares;

(d) the Corporation will promptly comply, to the reasonable satisfaction of the Agent and Agent's counsel, with Applicable Securities Laws with respect to any material change, change, occurrence or event of the nature referred to in subparagraphs (b) and (c) above and the Corporation will prepare and file promptly any amendment to the Prospectus which, in the opinion of the Corporation, after consultation with the Agent, acting reasonably, may be necessary or advisable;

(e) the Compensation Warrants will, at the Closing Time be duly and validly created and issued and shall entitle the Agent to purchase the Optioned Shares during the period commencing on the Closing Date and ending 18 months thereafter for a price per Common Share equal to the Offering Price, subject to adjustments as set out in the Compensation Warrant Certificate;

(f) the Subscription Funds received from the issuance of the Offered Shares shall be used for the intended purposes set forth in the Prospectus;

(g) the Corporation will use its reasonable best efforts to satisfy any conditions of the CDNX relating to the listing and posting for trading of the Offered Shares, the Optioned Shares, the Stock Option Shares (as set out in the conditional approval letter from the CDNX to Fasken Martineau DuMoulin LLP dated February 19, 2001 (the "CDNX Letter")) as soon as reasonably possible after the date thereof;

(h) the Corporation will duly, punctually and faithfully perform all the obligations to be performed by it under this Agreement and the Compensation Warrant Certificate;

(i) the Corporation shall deliver to the Agent a comfort letter of the auditors of the Corporation on the date of the Prospectus and in any event not later than the Closing, addressed to the Agent, in form and substance satisfactory to the Agent, acting reasonably, relating to the verification of the financial information and accounting data contained in the Prospectus and matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus to a date not more than two business days prior to the date of such letter;

(j) in the event of any amendment to the Prospectus, the Corporation shall promptly deliver to the Agent:

(i) a similar letter to that referred to in subparagraph 3(i) with respect to the contents referred to therein; and

(ii) as soon as practicable, as many copies of the amendment or the amended Prospectus, as the Agent may reasonably request, such delivery to constitute a delivery referred to in subparagraph 3(n) and thereby be subject to the representation and warranty therein referred to;

(k) [intentionally deleted];

(l) file, in the Qualifying Jurisdictions, the Prospectus, and all such other documents as may be required under Applicable Securities Laws, with the Securities Commissions and use its reasonable best efforts to obtain a receipt therefor from the Securities Commissions as soon as reasonably possible and to take all other steps as may be necessary to qualify the Offered Shares for sale in the Qualifying Jurisdictions;

(m) during the period of the distribution of the Offered Shares, the Corporation will promptly provide to the Agent for its review prior to filing or issuance:

(i) any proposed document, including without limitation, any annual information form, material change report or information circular, which it proposes to file with one or more Securities Commissions; and

(ii) any press release.

(n) deliver to the Agent, as soon as practicable after the issuance of receipts therefor by the Securities Commission, as many copies of the Prospectus as the Agent may reasonably request and such delivery shall constitute a representation and warranty by the Corporation that the Prospectus (except statements relating solely to the Agent or to any officer, director or employee of the Agent and furnished to the Corporation by the Agent or by any such officer, director or employee expressly for inclusion in such documents, or omissions from such documents relating solely to the Agent or to any officer, director or employee of the Agent), contains full, true and plain disclosure of all material facts relating to the Corporation and the Common Shares and does not contain any misrepresentation and such delivery shall constitute the Corporation's authorization of the Agent to use the Prospectus in the Qualifying Jurisdictions in accordance with the Applicable Securities Laws;

(o) it will not, without prior consultation with the Agent, withdraw the Prospectus from any of the Qualifying Jurisdictions;

(p) it will make available its senior management persons to meet with potential institutional investors if so requested by the Agent; and

(q) it will punctually file all other documentation or forms required to be filed with the Securities Commission in connection with this Offering.

4. Closing Conditions

4.1 The obligations of the Agent hereunder shall be conditional upon the Agent receiving on the Closing Date:

(a) a legal opinion of the Corporation's counsel addressed to the Agent and the Agent's counsel in form and substance reasonably satisfactory to the Agent, with respect to the following matters:

(i) the Corporation has been duly incorporated under the laws of Ontario and has not been dissolved and has all requisite corporate power and authority to carry on its business as now conducted by it and to own its property and assets, and is qualified to carry on business under the laws of Ontario;

(ii) the Subsidiary has been duly incorporated under the laws of Ontario and has not been dissolved and has all requisite corporate power and authority to carry on its business as now conducted by it and to own its property and assets, and is qualified to carry on business under the laws of Ontario;

(iii) the Corporation has full corporate power and authority to enter into this Agreement and the Compensation Warrant Certificate and to perform its obligations set out herein and therein, and this Agreement and the Compensation Warrant Certificate have been duly authorized, executed and delivered by the Corporation and constitute (subject to usual qualifications) legal, valid and binding obligations of the Corporation enforceable against the Corporation;

(iv) the execution and delivery of this Agreement and the Compensation Warrant Certificate, the fulfillment of the terms hereof and thereof by the Corporation, and the performance of and compliance with the terms of this Agreement and the Compensation Warrant Certificate by the Corporation do not and will not result in a breach of, or constitute a default under, and do not and will not create a state of facts which, after notice or lapse of time or both, will result in a breach of or constitute a default under, any applicable laws of the Province of Ontario or any laws of Canada applicable in the Province of Ontario or the articles, by-laws or resolutions of the Corporation, or any material agreement of which such counsel is aware, to which the Corporation is a party or by which it is bound on the Closing Date;

(v) the Compensation Warrants have been duly and validly authorized and issued by the Corporation;

(vi) the form of the Compensation Warrant Certificate has been approved by the board of directors of the Corporation;

(vii) the form of the definitive certificate representing the Common Shares has been approved by the board of directors of the Corporation and complies with the requirements of the *Business Corporations Act* (Ontario);

(viii) the Offered Shares have been issued as fully paid and non-assessable Common Shares;

(ix) the Optioned Shares issuable upon the exercise of the Compensation Warrants have been duly reserved for issuance and, when issued in accordance with the terms of the Compensation Warrants, will be validly issued as fully paid and non-assessable Common Shares;

(x) the Stock Option Shares issuable upon the exercise of the Stock Options have been duly reserved for issuance and, when issued in accordance with the terms of the Stock Option Plan, will be validly issued as fully paid and non-assessable Common Shares;

(xi) all documents required to be filed by the Corporation and all proceedings required to be taken by the Corporation under the Applicable Securities Laws have been filed and taken in order to qualify the distribution (or distribution to the public, as the case may be) of the Offered Shares in each of the Qualifying Jurisdictions through investment dealers or brokers registered under the applicable laws thereof who have complied with the relevant provisions thereof; and

(xii) the Common Shares have been conditionally accepted for listing on the CDNX, subject to any applicable requirements in the CDNX Letter;

and additionally relating to:

(xiii) the authorized and issued share capital of the Corporation;

(xiv) the qualification for distribution of that portion of the Compensation Warrants qualified for distribution by the Prospectus; and

(xv) the first trade of the Offered Shares, that portion of the Compensation Warrants qualified by the Prospectus and the Optioned Shares.

It is understood that the Corporation's counsel may rely on the opinions of local counsel acceptable to the Agent, acting reasonably, as to matters governed by the laws of jurisdictions other than Ontario or Canada and on certificates of officers of the Corporation and the auditors of the Corporation as to relevant matters of fact, including as to the agreements and instruments to which the Corporation is party or by which it is bound;

(b) a certificate of the Corporation dated the Closing Date, addressed to the Agent and signed on the Corporation's behalf by a senior officer of the Corporation acceptable to the Agent, acting reasonably, certifying, for and on behalf of the Corporation and without personal liability, that:

(i) the Corporation has complied with all covenants and satisfied all terms and conditions of this Agreement on its part to be complied with or satisfied at or prior to the Closing Time;

(ii) the representations and warranties of the Corporation set forth in this Agreement are true and correct at the Closing Time, as if made at such time;

(iii) no event of a nature referred to in subparagraphs 8(d), (e) and (f) has occurred or to the knowledge of such officer is pending, contemplated or threatened;

(iv) [intentionally deleted];

(v) there has been no material change in the assets, financial position, business or results of operations of the Corporation on a consolidated basis, since the date of the Prospectus;

(vi) [intentionally deleted]; and

(vii) the Corporation has made and/or obtained, on or prior to the Closing Time, all necessary filings, approvals, consents and acceptances of applicable regulatory authorities and under any applicable agreement or document to which the Corporation is a party or by which it is bound in respect of the execution and delivery by the Corporation of this Agreement and the consummation of the transactions contemplated hereby;

(c) the fee provided for in paragraph 6;

(d) the Compensation Warrant Certificate executed by the Corporation; and

(e) such other documents and certificates as the Agent may reasonably require.

It is understood that the Agent may waive, in full or in part, any breach or non-compliance with any of the conditions or other matters contained in this paragraph 4 or extend the time for compliance therewith without prejudice to its rights in respect of any other condition or conditions or any other subsequent breach or non-compliance, provided that any such waiver or extension shall be binding upon the Agent only if it is in writing. Subject to the foregoing, if any such condition as hereinbefore set out is not met at the Closing Time, the Agent shall have no obligation to complete the Offering and may withdraw all Subscriptions delivered and not previously withdrawn by Subscribers.

5. Closing

The Closing shall occur at the time of Closing on the Closing Date at the offices of the Corporation's counsel in Toronto, Ontario or at such other place as the Corporation and the Agent may agree. Subject to the conditions set forth in paragraph 4, the Agent, on the Closing Date, shall deliver to the Corporation a certified cheque or bank draft for the Subscription Funds less the amount of the Agent's fee set forth in subparagraph 6(a) against delivery by the Corporation of the certificate referred to in subparagraph 4(d).

6. Agent's Fee and Compensation

In consideration for its services hereunder, the Corporation agrees to:

(a) pay to the Agent, at the Closing Time (or in the case of the Over-Allotment Option at the time of thereof), a fee equal to 7% of the gross proceeds of the Offering, which fee shall be payable by bank draft, certified cheque or solicitors' trust cheque payable to or to the order of the Agent.; and

(b) grant to the Agent the Compensation Warrants in the form provided in Schedule "B" hereto. The Compensation Warrants granted to the Agent shall be evidenced by the Compensation Warrant Certificate. The parties hereto acknowledge that the Prospectus will qualify for distribution one-half of the Compensation Warrants.

7. Costs and Expenses

Whether or not the transactions herein are completed, all reasonable expenses and fees incurred by the Agent from time to time in connection with the Offering including, without limitation, the reasonable out-of-pocket expenses incurred by or on behalf of the Agent, the reasonable fees and expenses of the Agent's counsel (subject to a limit of $80,000 plus disbursements and GST), all expenses of or incidental to the creation, issue, sale or distribution of the Offered Shares and the Compensation Warrants, the qualification of the Optioned Shares, the Class B Shares, the Class B Warrants and the Stock Option Shares, all costs and expenses of or incidental to the preparation, filing and reproduction of the Preliminary Prospectus and Prospectus and the fees and expenses of listing on any exchanges and of the Corporation's counsel and the Corporation's auditors shall be borne by and be the responsibility of the Corporation and the Corporation shall pay all such costs and expenses in a timely manner.

8. Termination

If at any time prior to the Closing Time:

(a) there shall have occurred any material change (as that term is defined pursuant to Applicable Securities Laws) which, in the Agent's opinion, acting reasonably, materially impairs the investment quality or marketability of the Offered Shares;

(b) there shall develop, occur or come into effect any event of any nature whatsoever, which, in the Agent's opinion, acting reasonably, has had or will have a material adverse affect upon the state of financial markets in Canada such that the offering of the Offered Shares should be withdrawn;

(c) any amended Prospectus discloses information which, in the Agent's opinion, acting reasonably, results, or may reasonably be expected to result, at any time prior to the Closing Time in the Subscribers of a material number of the Offered Shares exercising their rights under Applicable Securities Laws to withdraw from or rescind their purchase thereof;

(d) an order to cease or halt trading in the Offered Shares or any other securities of the Corporation has been made by the Securities Commission, the CDNX or any other securities commission, stock exchange or other regulatory authority having jurisdiction over the Corporation which order has not been rescinded, revoked or withdrawn;

(e) there is any breach or non-performance of any of the material covenants, representations and warranties of the Corporation contained in this Agreement that has not been rectified or remedied;

(f) any inquiry or investigation in relation to the Corporation or the Corporation's directors or officers is commenced or threatened by the Securities Commission, the CDNX or any other securities commission, stock exchange or other regulatory authority having jurisdiction over the Corporation which has a material adverse effect on the Corporation's business; or

(g) there is any breach or non-performance by the Corporation of any of the provisions of or any order of the Securities Commission or the CDNX which has not been rescinded, revoked or withdrawn;

the Agent shall be entitled, at its option, to terminate and cancel its obligations under this Agreement with no liability on the Agent's part, by written notice to that effect given to the Corporation not later than the Closing Time or, in the case of (i) prior to the filing of the Prospectus. In the event of any such termination pursuant to the provisions of this section 6, the Corporation's obligations under this Agreement shall be at an end and save and except that the Corporation shall be liable to make payment of such any costs and expenses provided for in paragraph 8 to be payable by the Corporation, and shall previously have been incurred by the Agent and the indemnities contained in paragraph 11 shall remain in full force and effect. The rights of the Agent to terminate its obligations hereunder are in addition to and without prejudice to, any other remedies that it has.

9. No Waiver

The Agent may exercise any or all of the rights provided for in paragraphs 4 or 8 notwithstanding any material change, change, event or state of facts and notwithstanding any act or thing taken or done by the Agent or any inaction by the Agent, whether before or after the occurrence of any material change, change, event or state of facts including, without limitation, any act of the Corporation or the Agent related to the offering or continued offering of the Offered Shares for sale and any act taken by the Corporation or the Agent in connection with any amendment to the Prospectus and the Agent shall only be considered to have waived or be estopped from exercising or relying upon any of its rights under or pursuant to paragraphs 4 or 8 if such waiver or estoppel is in writing and specifically waives or estops such exercise or reliance.

10. Survival of Representations

It is understood that all representations, warranties, terms and conditions herein or contained in certificates or documents submitted pursuant to or in connection with the transactions contemplated herein shall survive the payment by the Subscribers or the Agent for the Offered Shares and the termination of this Agreement and shall continue in full force and effect for the benefit of the Agent regardless of any investigation by or on behalf of the Agent with respect thereto for a period of 2 years from the Closing Date.

11. <u>Indemnification</u>

The Corporation shall indemnify and save harmless the Agent and its affiliates, their respective directors, officers, employees, partners, agents and shareholders (collectively, the "**Indemnified Parties**" and individually, an "**Indemnified Party**"), to the full extent lawful, from and against any and all expenses, losses, claims, actions, damages and liabilities, joint or several, (including the aggregate amount paid in reasonable settlement of any actions, suits, proceedings, investigations or claims, and the reasonable fees and expenses of their counsel that may be incurred in advising with respect to and/or defending any actions, suits, proceedings, investigations or claims that may be made or threatened against any Indemnified Party but not including any amount for lost profits) to which any Indemnified Party may become subject or otherwise involved in any capacity under any statute or common law or otherwise insofar as such expenses, losses, claims, action, damages or liabilities relate to, are caused by, result from, arise out of or are based upon, directly or indirectly:

(a) any statement, other than a statement relating solely to, or provided solely by, the Agent, contained in the Prospectus or in any supplemental or additional or ancillary material, information, evidence, return, application, statement, statement or document (collectively, the "Supplementary Material") that has been filed by or on behalf of the Corporation under Applicable Securities Laws which at the time and in the light of the circumstances under which it was made contains or is alleged to contain a misrepresentation; or

(b) the Corporation not complying with any requirement of the CDNX or Applicable Securities Laws; or

(c) any order made or inquiry, investigation or proceeding commenced or threatened by any Securities Commission or other competent authority based upon any misrepresentation or alleged misrepresentation in the Prospectus or any Supplementary Material, other than a statement relating solely to, or provided solely by, the Agent, which prevents or restricts the trading in the Offered Shares or the distribution or distribution to the public, as the case may be, of the Offered Shares in any of the Qualifying Jurisdictions.

Notwithstanding the foregoing, the indemnity provided above shall not apply to the extent that a court of competent jurisdiction in a final judgment that has become non-appealable shall determine that such expenses, losses, claims, actions, damages or liabilities to which the Indemnified Party may be subject were primarily caused by the negligence, bad faith or willful misconduct of any Indemnified Party.

If for any reason (other than determinations as to any of the events referred to in the immediately preceding paragraph) the foregoing indemnification is unavailable to the Agent or any other Indemnified Party or is insufficient to hold the Agent or any other Indemnified Party, harmless, the Corporation shall contribute to the amount paid or payable by the Agent or the other Indemnified Party as a result of such expense, loss, claim, action, damage or liability in such proportion as is appropriate to reflect not only the relative benefits received by the

Corporation on the one hand and the Agent or any other Indemnified Party on the other hand but also the relative fault of the Corporation, the Agent or any other Indemnified Party as well as any relevant equitable considerations; provided that the Corporation shall in any event contribute any amount paid or payable by the Agent or any other Indemnified Party as a result of such expense, loss, claim, action, damage or liability which exceeds in the aggregate the amount of the fees received by Agent under this Agreement.

Promptly after receiving notice of an action, suit, proceeding or claim against the Agent or any other Indemnified Party or receipt of notice of the commencement of any investigation which is based, directly or indirectly, upon any matter in respect of which indemnification may be sought from the Corporation, the Agent shall notify the Corporation in writing of the particulars thereof, will provide copies of all relevant documentation to the Corporation and, unless the Corporation participates in the defense thereof as contemplated herein, will keep the Corporation advised of the progress thereof and will discuss all significant actions proposed. The omission so to notify the Corporation shall not relieve the Corporation of any liability which the Corporation may have to the Agent or any other Indemnified Party except only to the extent that any such delay in or failure to give notice as herein required prejudices the defense of such action, suit, proceeding, claim or investigation or results in any material increase in the liability which the Corporation would otherwise have under this indemnity had the Agent not delayed in or failed to give the notice required hereunder.

The Corporation shall be entitled, at its own expense, to participate in an action, suit, proceeding, claim or investigation referred to above, provided such defense is conducted by experienced and competent counsel for the Corporation which, may be the Agent’s counsel.

In any such action, suit, proceeding or claim, an Indemnified Party shall have the right to retain other counsel to act on such Indemnified Party's behalf provided that the fees and disbursements of such other counsel shall be paid by such Indemnified Party, unless: (i) the Corporation and such Indemnified Party mutually agree to retain other counsel; (ii) the Corporation has not assumed the defense of the matter within 10 days of being notified thereof; or (iii) counsel to such Indemnified Party provides a written opinion to the Corporation that the representation of the Corporation and such Indemnified Party by the same counsel would be inappropriate due to actual or potential differing interests, in which event such fees and disbursements shall be paid by the Corporation. In no case shall the Corporation be liable to pay for more than one counsel to all of the Indemnified Parties.

No admission of liability and no settlement of any action, suit, proceeding, claim or investigations shall be made without the consent of the Indemnified Parties affected, such consent not to be unreasonably withheld. No admission of liability shall be made and the Corporation shall not be liable for any settlement of any action, suit, proceeding, claim or investigation made without its consent, such consent not to be unreasonably withheld.

The Corporation hereby acknowledges that the Agent acts as trustee for the other Indemnified Parties of the Corporation’s covenants hereunder with respect to such persons and the Agent agrees to accept such trust and to hold and enforce such covenants on behalf of such persons.

The Corporation agrees to waive any right it may have of first requiring any Indemnified Party to proceed against or enforce any other right, power, remedy or security or claim payments form any other person before claiming indemnity or contribution hereunder.

The indemnity and contribution obligations of the Corporation hereunder shall be in addition to any liability which the Corporation may otherwise have, shall extend upon the same terms and conditions to the Indemnified Parties, shall be binding upon and inure to the benefit of any successors, permitted assigns, heirs and personal representatives of the Corporation and the Agent and any other Indemnified Party. The foregoing provisions shall survive the completion of professional services rendered under this Agreement or any termination of the authorization given by this Agreement.

12. Covenants of the Agent

The Agent shall:

(a) use its reasonable best efforts to obtain subscriptions for all of the Offered Shares;

(b) not solicit, directly or indirectly, offers to purchase or sell the Offered Shares so as to require registration thereof or the filing of a prospectus, registration statement or other similar document with respect thereto under the laws of any jurisdiction (other than the Qualifying Jurisdictions) including, without limitation, the United States and various states of the United States;

(c) offer the Offered Shares for sale in the Qualifying Jurisdictions and in other jurisdictions as permitted by applicable legislation and subject to the terms and conditions of this Agreement, at an initial offering price not exceeding the Offering Price;

(d) notify the Corporation within 30 days of the listing of the Common Shares on the CDNX of the number of Over-Allotment Shares that the Agent wishes to purchase.

(e) use its best efforts to complete, and to cause each other investment dealer and broker through which the Agent may sell the Offered Shares (the "Selling Firms") to complete, as promptly as possible after the filing of the Prospectus and notify the Corporation, when, in the opinion of the Agent, the distribution of the Offered Shares shall have ceased;

(f) promptly notify the Corporation of sales in each Qualifying Jurisdiction and other jurisdictions permitted by Applicable Securities Laws and this Agreement and provide a breakdown of the total proceeds realized in each of the Qualifying Jurisdictions in which a filing fee for a prospectus is based on the proceeds realized in the Qualifying Jurisdictions from the sale of securities offered therein;

(g) promptly notify each Securities Commission, where required, of the number of Offered Shares sold in the Qualifying Jurisdictions;

(h) conduct its activities in connection with the distribution of the Offered Shares in compliance with Applicable Securities Laws and all the securities laws of the other jurisdictions in which Offered Shares are offered by the Agent;

(i) advise the Corporation as to the identity of each of the Subscribers prior to the final allocation of the Offered Shares and provide to the Corporation a list of the Subscribers at such time as a final allocation has been made by the Agent;

(j) pay to the Selling Group (as defined in Schedule "A" hereto) 5% of the gross proceeds of the Offered Shares subscribed for, or for which Subscribers have been identified, by the Selling Group (out of the commission paid to the Agent by the Corporation), subject to a maximum of 30% of the Offered Shares;

(k) act as Sponsor (as that term is defined in Policy 1.1 of the CDNX) and file with the CDNX a Sponsor Report in connection with the listing of the Common Shares on the CDNX as required by CDNX or Applicable Securities Laws;

(l) provide all such notices and documents as may be required by Applicable Securities Laws in connection with the sale of the Offered Shares pursuant to the Prospectus, including without limiting the generality of the foregoing, delivery to the CDNX as soon as reasonably possible after the Closing of a distribution summary statement (as that term is defined in Applicable Securities Laws) or such other document as may be required by the CDNX, if any; and

(m) provided that if the Offering is completed, the Agent will for one year from the Closing Date publish and distribute research on the Corporation, including periodic update research reports and comprehensive research as it deems appropriate.

13. <u>Notices</u>

Any notice or other communication to be given hereunder shall, in the case of notice to be given to the Corporation, be addressed to:

Transition Therapeutics Inc.
Suite 1103, 415 Yonge St.
Toronto, Ontario
M5B 2E7

Attention: Dr. Tony Cruz, President and CEO
Telecopy: (416) 260-2886

With a copy to:

Sotos Associates
Suite 1250

180 Dundas Street West
Toronto, Ontario
M5G 1Z8

Attention: Louis Alexopoulos
Telecopy: (416) 977-0717

and, in the case of notice to be given to the Agent, be addressed to:

Canaccord Capital Corporation
Suite 1210, 320 Bay Street
Toronto, Ontario M5H 4A6

Attention: Vice-President, Corporate Finance
Telecopier: (416) 869-3876

or to such other address as the party may designate by notice given to the others. Each communication shall be personally delivered to the addressee or sent by facsimile transmission to the addressee, and:

(a) a communication which is personally delivered shall, if delivered before 4:30 p.m. (Toronto time) on a Business Day, be deemed to be given and received on that day and, in any other case be deemed to be given and received on the first Business Day following the day on which it is delivered; and

(b) a communication which is sent by facsimile transmission shall, if sent on a Business Day before 4:30 p.m. (Toronto time), be deemed to be given and received on that day and, in any other case, be deemed to be given and received on the first Business Day following the day on which it is sent provided, in any case, the sender has a confirmation that the fax was successful.

14. Blackout

Provided that the Offering is completed, the Corporation hereby covenants and agrees that, for a period of 120 days following the Closing Date, without the prior written consent of the Agent, which consent shall not be unreasonably withheld:

(a) it shall not offer, issue or announce the offering or issuance of any securities of the Corporation that are exchangeable, directly or indirectly, for Common Shares or other equity securities of the Corporation, other than in connection with the issuance of Common Shares or Class B Shares on the exercise, conversion or exchange of securities outstanding on the date hereof and the issuance of Common Shares under the Stock Option Plan; and

(b) it shall use reasonable efforts to cause the directors of the Corporation (other than Bradley Thompson) and officers of the Corporation not to transfer or dispose of any Common Shares held by them.

15. Severability

If one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein.

16. Governing Law

This Agreement shall be construed and enforced in accordance with and the rights of the parties hereto shall be governed by the laws of the Province of Ontario. Each of the parties hereto irrevocably attorns to the non-exclusive jurisdiction of the courts of the Province of Ontario.

17. Time of the Essence

Time shall be of the essence of this Agreement.

18. Headings

The headings appearing in this Agreement have been included for ease of reference and shall not affect the interpretation hereof.

19. Counterparts

This Agreement may be executed in several counterparts, each of which when so executed shall be deemed to be an original, and all such counterparts together shall constitute one in the same agreement. The parties hereto shall be entitled to rely on delivery of a facsimile copy of the executed counterpart.

20. Entire Agreement

Subject to the engagement letter dated as of December 20, 2000 between the parties, which engagement letter shall, for certainty, continue in full force and effect, unamended, with respect to the rights and obligations of the parties up to the date of this Agency Agreement, this Agreement supersedes all other agreements, documents, letters, writings and oral understandings among the parties relating to the subject hereof and represents the entire agreement between the parties with respect to the subject matter hereof.

21. <u>Successors and Assignees</u>

All the terms and provisions of this Agreement shall be binding upon and enure to the benefit of and be enforceable by the parties hereto, their respective successors and assigns, but shall not be assignable without the prior written consent of the other parties hereto.

* * * * *

If the foregoing is in accordance with your understanding and is agreed to by you, please confirm your acceptance by signing the enclosed copies of this letter at the place indicated and by returning the same to Canaccord Capital Corporation.

CANACCORD CAPITAL CORPORATION

Per: ***"Derek Webb"***
Derek Webb

ACCEPTED AND AGREED TO this 19th day of February, 2001.

TRANSITION THERAPEUTICS INC.

Per: ***"Tony Cruz"***
Tony Cruz

SCHEDULE "A"
DISTRIBUTION OF THE OFFERED SHARES

35% - Special Warrant holder entitlement

5% - President's list (Tony Cruz)

30% - Canaccord Capital Corporation retail as lead agent

30% - Selling Group as per rights of holders of Special Warrants (the Selling Group to receive from Canaccord Capital Corporation 5% of the gross proceeds of the Offered Shares sold to the Selling Group)

10% - Over-Allotment Option (35% Special Warrant holder entitlement applies)

SCHEDULE “B”

COMPENSATION WARRANT CERTIFICATE

TRANSITION THERAPEUTICS INC.

(incorporated under the laws of Ontario)

THIS IS TO CERTIFY THAT pursuant to an agency agreement (the "**Agency Agreement**") dated February 19, 2001 between Canaccord Capital Corporation (the "**Agent**") and Transition Therapeutics Inc. (the "**Corporation**"), the Agent is hereby irrevocably granted a non-assignable warrant (the "**Compensation Warrant**") entitling the Agent to purchase [x] Common Shares (the "**Optioned Shares**") on the terms and conditions herein set forth.

In the event of exercise of the Over-Allotment Option, the Agent shall be entitled to another Compensation Warrant Certificate, to be executed and delivered by the Corporation at the same time as definitive share certificates are delivered, to acquire, on the same terms and conditions hereof, up to 10% of the number of Common Shares issued on the Over-Allotment Option.

This Compensation Warrant entitles the Agent to acquire any or all of the Optioned Shares at any time during the period commencing the date hereof until 5:00 pm (Toronto Time) on ●, 2002 (the "**Expiry Time**") at an exercise price of $1.25 per Optioned Share (the "**Exercise Price**"). If this Compensation Warrant is not exercised prior to the Expiry Time, this Compensation Warrant shall expire, without any further action on the part of the Agent, at the Expiry Time and the Agent shall have no further rights hereunder.

The right to acquire the Optioned Shares may be exercised, in whole or in part, at any time prior to the Expiry Time by the Agent providing written notice of such exercise (the "**Notice**") to the principal office of the Corporation at Suite 1103, 415 Yonge Street, Toronto, Ontario M5B 2E7, Attention: President (or at such other address as the Corporation shall give written notice of to the Agent), together with this Compensation Warrant Certificate and a certified cheque or bank draft representing the exercise price for the applicable number of the Optioned Shares being purchased. In the event that the Agent exercises its right to acquire only a portion of the Optioned Shares (as specified in the written notice of exercise), the Corporation shall deliver to the Agent a new Compensation Warrant Certificate, containing all of the same terms and conditions as set out herein, except that it shall reflect the number of Optioned Shares remaining available to the Agent for purchase prior to the Expiry Time.

Upon receipt of the Notice and payment in full of the exercise price for the total number of Optioned Shares to be purchased, the Corporation shall cause the Agent to be recorded in its register of shareholders as holder of that number of fully paid, non-assessable Common Shares so purchased (the date upon which the Agent is so recorded as a registered holder being referred to herein as the "**Registry Date**"). The Agent shall have full rights as a shareholder with respect to Common Shares acquired pursuant to the exercise of the Compensation Warrant on and after the Registry Date. The Corporation agrees to issue share certificates in respect of all Common Shares so purchased as soon as is practicable after the Registry Date, and in any event within ten (10) business days thereafter.

Appropriate adjustments in the number of Optioned Shares issuable upon the exercise of the Compensation Warrant and in the Exercise Price shall be made by the Corporation to give effect to adjustments in the number of Common Shares resulting subsequent to the date hereof from subdivisions, consolidations, reclassifications, exchanges or conversions of the Common Shares, the payment of stock dividends by the Corporation, amalgamations, arrangements or other reorganizations affecting the Corporation or other relevant changes in the capital of the Corporation.

The Corporation hereby represents and covenants that:

(a) it will reserve and keep available a sufficient number of Common Shares for the purpose of enabling it to satisfy its obligations to issue Common Shares upon the exercise of this Compensation Warrant in the event that the Corporation does not have an unlimited number of Common Shares authorized;

(b) it will cause the Common Shares from time to time acquired pursuant to the exercise of the Compensation Warrants to be duly issued and delivered in accordance with the terms hereof;

(c) all Common Shares which shall be issued upon exercise of the right to purchase provided for herein shall be issued as fully paid and non-assessable shares, free and clear of all encumbrances whatsoever;

(d) it will use its all reasonable commercial efforts to ensure that all Common Shares issuable from time to time pursuant to the exercise of this Warrant Certificate are then listed and posted for trading on the CDNX, or such other stock exchange satisfactory to the Agent acting reasonably (and if not, the Corporation shall use all reasonable commercial efforts to arrange such listing and posting); and

(e) generally, it will well and truly perform and carry out all of the acts or things to done by it as provided herein.

Time is of the essence hereof.

Capitalized terms used in this Compensation Warrant Certificate shall be given the meanings ascribed to them in the Agency Agreement unless otherwise defined herein or unless otherwise required by the context.

This Agreement and the rights granted hereunder shall be governed by and construed in accordance with the laws of the province of Ontario and the laws of Canada applicable therein.

The holding of this Compensation Warrant Certificate shall not constitute the Agent as a shareholder of the Corporation or entitle the Agent to any right or interest in respect of any of the securities of the Corporation represented thereby until the Agent has acquired any Optioned Shares. The Agent shall comply with Applicable Securities Laws regarding the holding and trading of this Compensation Warrant and the securities into which it may be exercised.

IN WITNESS WHEREOF the Corporation has caused this Compensation Warrant Certificate to be executed by its proper officer or officers duly authorized in that behalf as of the ____ day of February, 2001.

TRANSITION THERAPEUTICS INC.

By: ________________________________
Tony Cruz