

Consolidated Financial Statements of
(Unaudited)

THERATECHNOLOGIES INC.

Nine-month periods ended August 31, 2007 and 2006

THERATECHNOLOGIES INC.

Consolidated Financial Statements
(Unaudited)

Nine-month periods ended August 31, 2007 and 2006

Financial Statements

Consolidated Balance Sheets.....	1
Consolidated Statements of Earnings	2
Consolidated Statements of Comprehensive Loss.....	3
Consolidated Statement of Shareholders' Equity	4
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements.....	6

THE RATECHNOLOGIES INC.

Consolidated Balance Sheets
(Unaudited)

August 31, 2007, with comparative figures as at November 30, 2006
(in thousands of dollars)

	August 31, 2007	November 30, 2006 (Audited)
Assets		
Current assets:		
Cash	\$ 6,542	\$ 16
Bonds (note 2)	26,747	18,023
Accounts receivable	785	289
Tax credits receivable	1,125	1,911
Research supplies	2,392	850
Prepaid expenses	960	391
	<u>38,551</u>	<u>21,480</u>
Bonds (note 2)	36,198	17,641
Investments in public companies (market value: \$99 in 2007; \$1,112 in 2006) (note 2)	99	836
Property and equipment	1,721	1,580
Other assets (note 3)	8,086	9,431
	<u>\$ 84,655</u>	<u>\$ 50,968</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,507	\$ 6,493
Shareholders' equity:		
Capital stock (note 4)	238,566	177,552
Contributed surplus	4,653	3,486
Accumulated other comprehensive loss (note 2)	(961)	—
Deficit	(167,110)	(136,563)
	<u>(168,071)</u>	<u>(136,563)</u>
Total shareholders' equity	75,148	44,475
Subsequent event (note 6)		
	<u>\$ 84,655</u>	<u>\$ 50,968</u>

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Earnings
(Unaudited)

Periods ended August 31, 2007 and 2006
(in thousands of dollars, except per share amounts)

	August 31,		August 31,	
	2007	2006	2007	2006
	(3 months)		(9 months)	
Revenues:				
Royalties, technologies and other	\$ 5	\$ 5	\$ 14	\$ 187
Interest	743	407	1,826	1,095
	748	412	1,840	1,282
Operating costs and expenses:				
Research and development	8,715	6,440	23,391	16,086
Tax credits	(323)	(236)	(1,358)	(620)
	8,392	6,204	22,033	15,466
General and administrative	1,514	1,046	5,196	3,586
Selling and market development	801	257	1,662	689
Patents and amortization of other assets	205	156	600	460
	10,912	7,663	29,491	20,201
Operating loss before undernoted item	(10,164)	(7,251)	(27,651)	(18,919)
Realized gain on disposal of investments in public companies	383	-	342	-
Net loss	\$ (9,781)	\$ (7,251)	\$ (27,309)	\$ (18,919)
Basic and diluted loss per share (note 3 (c))	\$ (0.18)	\$ (0.16)	\$ (0.53)	\$ (0.45)
Weighted average number of common shares outstanding	54,471,371	46,759,880	51,942,099	42,182,786

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Comprehensive Loss
(Unaudited)

Periods ended August 31, 2007 and 2006
(in thousands of dollars)

	August 31,		August 31,	
	2007	2006	2007	2006
	(3 months)		(9 months)	
Net loss	\$ (9,781)	\$ (7,251)	\$ (27,309)	\$ (18,919)
Unrealized losses on available-for-sale financial assets	(400)	—	(1,040)	—
Comprehensive loss	\$ (10,181)	\$ (7,251)	\$ (28,349)	\$ (18,919)

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statement of Shareholders' Equity (Unaudited)

Nine-month period ended August 31, 2007
(in thousands of dollars)

	Capital stock		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
	Number	Dollars				
Balance, November 30, 2006	46,775,359	\$ 177,552	\$ 3,486	\$ -	\$ (136,563)	\$ 44,475
Issuance of share capital	6,885,949	57,854	-	-	-	57,854
Share issue costs	-	-	-	-	(3,238)	(3,238)
Exercise of stock options:						
Cash proceeds	822,200	2,207	-	-	-	2,207
Ascribed value	-	953	(953)	-	-	-
Stock-based compensation	-	-	2,120	-	-	2,120
Changes in accounting policies (note 2)	-	-	-	79	-	79
Net loss	-	-	-	-	(27,309)	(27,309)
Unrealized losses on available-for-sale financial assets	-	-	-	(1,040)	-	(1,040)
Balance, August 31, 2007	54,483,508	\$ 238,566	\$ 4,653	\$ (961)	\$ (167,110)	\$ 75,148

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Cash Flows (Unaudited)

Periods ended August 31, 2007 and 2006
(in thousands of dollars)

	August 31,		August 31,	
	2007	2006	2007	2006
	(3 months)		(9 months)	
Cash flows from operating activities:				
Net loss	\$ (9,781)	\$ (7,251)	\$ (27,309)	\$ (18,919)
Adjustments for:				
Depreciation of property and equipment	145	150	390	443
Depreciation of other assets	140	126	401	351
Stock-based compensation	168	110	2,120	700
Realized gain on disposal of investments in public companies	(383)	—	(342)	—
	(9,711)	(6,865)	(24,740)	(17,425)
Changes in operating assets and liabilities:				
Interest receivable on bonds	(32)	224	(662)	157
Accounts receivable	(238)	(3)	(471)	(117)
Tax credits receivable	718	(238)	786	(600)
Research supplies	521	383	(453)	(576)
Prepaid expenses	(192)	75	(569)	(138)
Accounts payable and accrued liabilities	3,181	1,195	2,785	1,041
	3,958	1,636	1,416	(233)
	(5,753)	(5,229)	(23,324)	(17,658)
Cash flows from financing activities:				
Share issuance	214	—	60,061	21,850
Share issue costs	(139)	(135)	(3,188)	(1,405)
	75	(135)	56,873	20,445
Cash flows from investing activities:				
Addition to property and equipment	(100)	(16)	(366)	(161)
Addition to other assets	(88)	(51)	(156)	(165)
Disposal of other assets	—	—	—	80
Acquisition of bonds	(6,310)	—	(40,689)	(16,082)
Disposal of bonds	5,411	5,273	13,487	14,001
Disposal of investments in public companies	660	—	701	—
	(427)	5,206	(27,023)	(2,327)
Net change in cash	(6,105)	(158)	6,526	460
Cash, beginning of period	12,647	1,705	16	1,087
Cash, end of period	\$ 6,542	\$ 1,547	\$ 6,542	\$ 1,547

See note 5 (a) for supplemental cash flow information.

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements
(Unaudited)

Periods ended August 31, 2007 and 2006
(in thousands of dollars, except per share amounts)

1. Basis of presentation:

The financial statements included in this report are unaudited and reflect normal and recurring adjustments which are, in the opinion of the Company, considered necessary for a fair presentation. These financial statements have been prepared in conformity with Canadian generally accepted accounting principles. The same accounting policies as described in the Company's latest annual report have been used, except as described in note 2 below. However, these financial statements do not include all disclosures required under generally accepted accounting principles and, accordingly, should be read in connection with the financial statements and the notes thereto included in the Company's latest annual report. These interim financial statements have not been reviewed by auditors.

2. Changes in accounting policies:

Effective the commencement of its 2007 fiscal year, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. A new financial statement has been presented in relation to the new standards.

Under these new standards, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured either at fair market value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended August 31, 2007 and 2006
(in thousands of dollars, except per share amounts)

2. Changes in accounting policies (continued):

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

As a result of the adoption of these standards, the Company has classified its bonds and investments in public companies as available-for-sale financial assets and are now measured at fair market value. Previously, these investments were recorded at the lower of cost and fair market value. On December 1, 2006, the impact of \$79 of these changes in accounting policies is included in the opening balance of accumulated other comprehensive income.

The adoption of standards of Sections 3251, 3861 and 3855 has no impact on the financial statements for the period ended August 31, 2007.

3. Other assets:

			August 31, 2007
	Cost	Accumulated amortization	Net book value
Intellectual property	\$ 7,670	\$ 2,617	\$ 5,053
Patent costs	1,907	987	920
Research supplies	2,063	-	2,063
Other assets	50	-	50
	\$ 11,690	\$ 3,604	\$ 8,086

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended August 31, 2007 and 2006
(in thousands of dollars, except per share amounts)

3. Other assets (continued):

	November 30, 2006		
	Cost	Accumulated amortization	Net book value
Intellectual property	\$ 7,670	\$ 2,327	\$ 5,343
Patent costs	1,737	876	861
Research supplies	3,152	-	3,152
Other assets	75	-	75
	\$ 12,634	\$ 3,203	\$ 9,431

4. Capital stock:

During the first quarter of 2007, the Company concluded a public offering for the sale and issue of 6,875,000 common shares, including the over-allotment option, for cash proceeds of \$57,750. The issuance costs amounted to \$3,238.

During the second quarter of 2007, the Company also issued 10,949 common shares to employees for a consideration of \$104, in connection with its share purchase plan.

(a) Share option plan:

Changes in outstanding options granted under the Company's stock option plan for the year ended November 30, 2006 and the nine-month period ended August 31, 2007 were as follows:

	Number	Weighted average exercise price
Options as at November 30, 2005 (audited)	2,300,664	\$ 5.50
Granted	840,000	1.69
Cancelled	(234,664)	6.70
Expired	(355,000)	4.60
Options as at November 30, 2006 (audited)	2,551,000	4.26
Granted	533,500	9.09
Cancelled	(71,667)	2.07
Exercised	(822,200)	2.68
Options as at August 31, 2007	2,190,633	\$ 7.65

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended August 31, 2007 and 2006
(in thousands of dollars, except per share amounts)

4. Capital stock (continued):

(a) Share option plan (continued):

Between September 1, 2007 and October 8, 2007, 26,500 stock options were exercised at a weighted average price of \$4.85 per share for a cash consideration of \$128.

(b) Stock-based compensation and other stock-based payments:

The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	4.19%	4.08%
Expected volatility	69%	50%
Expected average option life in years	6	6
Expected dividend yield	Nil	Nil

Dividend yield was excluded from the calculation, since it is the present policy of the Company to retain all earnings to finance operations and future growth.

The following table summarizes the weighted average fair value of stock options granted during the periods ended August 31, 2007 and 2006:

	Number	Weighted average grant-date fair value
Periods ended August 31 (9 months):		
2007	533,500	\$ 5.89
2006	832,500	0.88
Periods ended August 31 (3 months):		
2007	160,000	7.24
2006	47,500	0.75

(c) Diluted loss per share:

Diluted loss per share was not presented as the effect of options and warrants would have been anti-dilutive. Furthermore, the exercise of 266,500 options (2006 - 2,417,666 options and warrants) has not been considered in such computation since their exercise prices were higher than the average market price during the reporting periods of 2007 and 2006.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended August 31, 2007 and 2006
(in thousands of dollars, except per share amounts)

5. Supplemental information:

(a) The following transactions were conducted by the Company and did not impact cash flows:

	August 31, 2007	November 30, 2006
Additions to property and equipment included in accounts payable and accrued liabilities	\$ 167	\$ 2
Additions to other assets included in accounts payable and accrued liabilities	50	36
Share issue costs included in accounts payable and accrued liabilities	55	5

(b) General and administrative expenses include a loss on exchange of \$438 for the nine-month period ended August 31, 2007 (gain of \$110 for the same period in 2006).

(c) The Company has reclassified in the net loss \$316 of realized gains on available-for-sale financial assets previously recorded in accumulated other comprehensive income. The realized gains include a gain of \$518 on disposal of the investment in Sonomed. In July 2007, the Company received an amount of \$609 as a result of the redemption of the shares held by the Company.

(d) The Company received tax credits of \$1,103 in December 2006 and \$1,041 in July 2007.

6. Subsequent event:

On September 26, 2007, the Company signed a licensing agreement whereby OctoPlus N.V. ("OctoPlus") acquired the exclusive worldwide rights for the development and commercialization of its *Glucagon-like Peptide-1 (GLP-1)* program: a portfolio of analogues for the treatment of diabetes and other potential indications. OctoPlus's proprietary drug delivery technology in the area of controlled release will be combined with the Company's GLP-1 compounds to produce a product candidate that may reduce the required dosing frequency in diabetes therapy.

THERATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended August 31, 2007 and 2006
(in thousands of dollars, except per share amounts)

6. Subsequent event (continued):

The Company received 200,000 OctoPlus stock options upon signature of the agreement. In addition, pursuant to the terms of the agreement, OctoPlus will make milestone payments to the Company of up to €36 million (approximately CA\$51 million), based on development, clinical phases and commercialization. Royalties on the annual net sales of any products developed and commercialized under the agreement could also be paid to the Company. OctoPlus will be responsible for all future development costs for GLP-1 portfolio compounds.