Consolidated Financial Statements of
(Unaudited)

# THERATECHNOLOGIES INC.

Six-month periods ended May 31, 2008 and 2007

# THERATECHNOLOGIES INC.

Consolidated Financial Statements
(Unaudited)

Periods ended May 31, 2008 and 2007

**Financial Statements**

# THERATECHNOLOGIES INC.

Consolidated Balance Sheets
(Unaudited)

May 31, 2008, with comparative figures as at November 30, 2007
(in thousands of dollars)

| | May 31, 2008 | November 30, 2007 |
|---|---|---|
| | | (Audited) |
| **Assets** | | |
| Current assets: | | |
| Cash | $ 7,982 | $ 2,578 |
| Bonds | 26,326 | 27,466 |
| Accounts receivable | 320 | 451 |
| Tax credits receivable | 2,608 | 1,418 |
| Research supplies | 593 | 2,110 |
| Prepaid expenses | 703 | 414 |
| | 38,532 | 34,437 |
| Bonds | 35,524 | 30,324 |
| Investments in public companies | 202 | 635 |
| Property and equipment | 1,533 | 1,722 |
| Other assets (note 3) | 8,005 | 7,472 |
| | $ 83,796 | $ 74,590 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 11,479 | $ 8,613 |
| Shareholders' equity: | | |
| Capital stock (note 4) | 268,983 | 238,842 |
| Contributed surplus | 5,191 | 4,807 |
| Accumulated other comprehensive loss | (291) | (333) |
| Deficit | (201,566) | (177,339) |
| | (201,857) | (177,672) |
| Total shareholders’ equity | 72,317 | 65,977 |
| | $ 83,796 | $ 74,590 |

See accompanying notes to unaudited consolidated financial statements.

# THERATECHNOLOGIES INC.

Notes to Consolidated Statements of Earnings
(Unaudited)

Periods ended May 31, 2008 and 2007
(in thousands of dollars, except per share amounts)

| | May 31, 2008 | May 31, 2007 | May 31, 2008 | May 31, 2007 |
|---|---|---|---|---|
| | (3 months) | | (6 months) | |
| Revenues: | | | | |
| Royalties, technologies and other | $ 5 | $ 5 | $ 10 | $ 9 |
| Interest | 711 | 800 | 1,305 | 1,083 |
| | 716 | 805 | 1,315 | 1,092 |
| Operating costs and expenses: | | | | |
| Research and development | 9,927 | 6,576 | 19,411 | 14,676 |
| Tax credits | (701) | (273) | (1,189) | (1,035) |
| | 9,226 | 6,303 | 18,222 | 13,641 |
| General and administrative | 1,760 | 1,884 | 3,601 | 3,682 |
| Selling and market development | 949 | 466 | 1,406 | 861 |
| Patents and amortization of other assets | 179 | 200 | 375 | 395 |
| | 12,114 | 8,853 | 23,604 | 18,579 |
| Operating loss before undernoted item | (11,398) | (8,048) | (22,289) | (17,487) |
| Realized loss on disposal of investments in public companies | – | (41) | – | (41) |
| Net loss | $ (11,398) | $ (8,089) | $ (22,289) | $ (17,528) |
| Basic and diluted loss per share (note 4 (c)) | $ (0.20) | $ (0.15) | $ (0.39) | $ (0.35) |
| Weighted average number of common shares outstanding | 58,112,741 | 54,215,473 | 56,675,416 | 50,663,254 |

See accompanying notes to unaudited consolidated financial statements.

# THERATECHNOLOGIES INC.

Consolidated Statements of Comprehensive Earnings
(Unaudited)

Periods ended May 31, 2008 and 2007
(in thousands of dollars)

| | May 31, | | May 31, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (3 months) | | (6 months) | |
| Net loss | $ (11,398) | $ (8,089) | $ (22,289) | $ (17,528) |
| Unrealized (losses) gains on available-for-sale financial assets | (276) | (874) | 42 | (640) |
| Comprehensive loss | $ (11,674) | $ (8,963) | $ (22,247) | $ (18,168) |

See accompanying notes to unaudited consolidated financial statements.

# THERATECHNOLOGIES INC.

Consolidated Statements of Shareholders' Equity
(Unaudited)

Six-month period ended May 31, 2008
(in thousands of dollars)

| | Capital stock | | Contributed | Accumulated other compre-hensive | | |
|---|---|---|---|---|---|---|
| | Number | Dollars | surplus | income | Deficit | Total |
| Balance, November 30, 2007 | 54,531,133 | $ 238,842 | $ 4,807 | $ (333) | $ (177,339) | $ 65,977 |
| Issuance of share capital (note 4) | 3,503,671 | 29,778 | – | – | – | 29,778 |
| Share issue costs | – | – | – | – | (1,938) | (1,938) |
| Exercise of stock options: | | | | | | |
| Cash proceeds | 91,332 | 286 | – | – | – | 286 |
| Ascribed value | – | 77 | (77) | – | – | – |
| Stock-based compensation | – | – | 461 | – | – | 461 |
| Net loss | – | – | – | – | (22,289) | (22,289) |
| Unrealized gains on available-for-sale financial assets | – | – | – | 42 | – | 42 |
| Balance, May 31, 2008 | 58,126,136 | $ 268,983 | $ 5,191 | $ (291) | $ (201,566) | $ 72,317 |

See accompanying notes to unaudited consolidated financial statements.

# THERATECHNOLOGIES INC.

Consolidated Statements of Shareholders' Equity, Continued
(Unaudited)

Six-month period ended May 31, 2007
(in thousands of dollars)

| | Capital stock Number | Capital stock Dollars | Contributed surplus | Accumulated other comprehen-sive income | Deficit | Total |
|---|---|---|---|---|---|---|
| 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 | 765,534 | 1,993 | – | – | – | 1,993 |
| Ascribed value | – | 916 | (916) | – | – | – |
| Stock-based compensation | – | – | 1,952 | – | – | 1,952 |
| Changes in accounting policies | – | – | – | 79 | – | 79 |
| Net loss | – | – | – | – | (17,528) | (17,528) |
| Unrealized gains on available-for-sale financial assets | – | – | – | (640) | – | (640) |
| Balance, May 31, 2007 | 54,426,842 | $ 238,315 | $ 4,522 | $ (561) | $ (157,329) | $ 84,947 |

See accompanying notes to unaudited consolidated financial statements.

# THERATECHNOLOGIES INC.

Consolidated Statements of Cash Flows
(Unaudited)

Periods ended May 31, 2008 and 2007
(in thousands of dollars)

| | May 31, 2008 | May 31, 2007 | May 31, 2008 | May 31, 2007 |
|---|---|---|---|---|
| | (3 months) | | (6 months) | |
| Cash flows from operating activities: | | | | |
| Net loss | $ (11,398) | $ (8,089) | $ (22,289) | $ (17,528) |
| Adjustments for: | | | | |
| Depreciation of property and equipment | 158 | 129 | 309 | 245 |
| Amortization of other assets | 135 | 135 | 269 | 261 |
| Stock-based compensation | 252 | 317 | 461 | 1,952 |
| Realized loss on disposal of investments in public companies | – | 41 | – | 41 |
| | (10,853) | (7,467) | (21,250) | (15,029) |
| Changes in operating assets and liabilities: | | | | |
| Interest receivable on bonds | 134 | (830) | 81 | (630) |
| Accounts receivable | 15 | 25 | 156 | (233) |
| Tax credits receivable | (702) | (273) | (1,190) | 68 |
| Research supplies | (227) | (295) | 723 | (974) |
| Prepaid expenses | 39 | (262) | (289) | (377) |
| Accounts payable and accrued liabilities | 2,819 | (266) | 2,787 | (396) |
| | 2,078 | (1,901) | 2,268 | (2,542) |
| | (8,775) | (9,368) | (18,982) | (17,571) |
| Cash flows from financing activities: | | | | |
| Share issuance | 72 | 1,334 | 30,064 | 59,847 |
| Share issue costs | (199) | (63) | (1,703) | (3,049) |
| | (127) | 1,271 | 28,361 | 56,798 |
| Cash flows from investing activities: | | | | |
| Additions to property and equipment | (70) | (202) | (236) | (266) |
| Additions to other assets | (9) | (34) | (73) | (68) |
| Acquisition of bonds | (3,065) | (34,379) | (13,172) | (34,379) |
| Disposal of bonds | 2,640 | 301 | 9,506 | 8,076 |
| Disposal of investments in public companies | – | 41 | – | 41 |
| | (504) | (34,273) | (3,975) | (26,596) |
| Net (decrease) increase in cash | (9,406) | (42,370) | 5,404 | 12,631 |
| Cash, beginning of period | 17,388 | 55,017 | 2,578 | 16 |
| Cash, end of period | $ 7,982 | $ 12,647 | $ 7,982 | $ 12,647 |

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

See accompanying notes to unaudited consolidated financial statements.

**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 the auditors.

**2. New accounting policies:**

(a) Adoption of new accounting standards:

Effective with the commencement of its 2008 fiscal year, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*, CICA Handbook Section 3862, *Financial Instruments - Disclosures*, and CICA Handbook Section 3863, *Financial Instruments - Presentation*. The Sections relate to disclosure and presentation only and did not have an impact on the Company's financial results (see notes 6 and 7).

(b) Future accounting changes:

Inventories

In June 2007, the CICA issued Section 3031, *Inventories*, which replaces Section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards (IFRS). This Section provides changes to the measurement and more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. This Section will apply to the Company's interim and annual financial statements beginning December 1, 2008. The Company has not yet determined the impact on the consolidated financial statements of adopting this standard.

(in thousands of dollars, except per share amounts)

**2. New accounting policies (continued):**

(b) Future accounting changes (continued):

Goodwill and intangible assets

In January 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, which will replace Section 3062, *Goodwill and Other Intangible Assets*. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard will apply to the Company's interim and annual financial statements beginning on December 1, 2008. The Company has not yet determined the impact on the consolidated financial statements of adopting this standard.

International Financial Reporting Standards

In 2005, the Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are to converge with IFRS. In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP". This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting standards with IFRS. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The CICA has confirmed the changeover date from current Canadian GAAP to IFRS to be January 1, 2011.

**3. Other assets:**

| | | | May 31, 2008 |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value |
| Intellectual property | $ 7,670 | $ 2,906 | $ 4,764 |
| Patent costs | 2,026 | 1,128 | 898 |
| Research supplies | 2,318 | – | 2,318 |
| Other assets | 25 | – | 25 |
| | $ 12,039 | $ 4,034 | $ 8,005 |

(in thousands of dollars, except per share amounts)

## 3. Other assets (continued):

| | | | | | | November 30, 2007 |
|---|---|---|---|---|---|---|
| | | Cost | | Accumulated depreciation | | Net book value |
| Intellectual property | $ | 7,670 | $ | 2,713 | $ | 4,957 |
| Patent costs | | 1,993 | | 1,052 | | 941 |
| Research supplies | | 1,524 | | – | | 1,524 |
| Other assets | | 50 | | – | | 50 |
| | $ | 11,237 | $ | 3,765 | $ | 7,472 |

## 4. Capital stock:

On February 13, 2008, the Company completed a public offering for the sale and issue of 3,500,000 common shares, for cash proceeds, of $29,750. The issuance costs amounted to $1,938.

During the second quarter of 2008, the Company received subscriptions in the amount of $28 for the issue of 3,671 common shares 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, 2007 and the six-month period ended May 31, 2008 were as follows:

| | Number | | Weighted average exercise price |
|---|---|---|---|
| Options as at November 30, 2006 (audited) | 2,551,000 | $ | 4.26 |
| Granted | 608,500 | | 9.41 |
| Cancelled | (84,167) | | 2.80 |
| Expired | (867,700) | | 2.76 |
| Options as at November 30, 2007 (audited) | 2,207,633 | | 6.32 |
| Granted | 101,000 | | 8.45 |
| Cancelled | (1,000) | | 8.50 |
| Exercised | (91,332) | | 3.13 |
| Options as at May 31, 2008 | 2,216,301 | $ | 6.50 |

(in thousands of dollars, except per share amounts)

**4. Capital stock (continued):**

(a) Share option plan (continued):

Between June 1, 2008 and July 8, 2008, 15,334 stock options were exercised at a weighted average price of $3.69 per share for a cash consideration of $57.

(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:

| | 2008 | 2007 |
|---|---|---|
| Risk-free interest rate | 3.41% | 4.03% |
| Volatility | 70% | 68% |
| Average option life in years | 6 | 6 |
| Dividend yield | Nil | Nil |

The risk-free interest rate is based on the implied yield on a Canadian Treasury zero-coupon issue with a remaining term equal to the expected term of the option. The volatility is based solely on historical volatility equal to the expected term of the option. The average life of the options is estimated considering the vesting period, the term of the option and historical exercise patterns. 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 May 31, 2008 and 2007:

| | Number of options | Weighted average grant date fair value |
|---|---|---|
| Periods ended May 31 (6 months): | | |
| 2008 | 101,000 | $ 5.45 |
| 2007 | 373,500 | 5.32 |
| Periods ended May 31 (3 months): | | |
| 2008 | 20,000 | 4.95 |
| 2007 | 85,000 | 5.35 |

(in thousands of dollars, except per share amounts)

**4. Capital stock (continued):**

(c) Diluted loss per share:

Diluted loss per share was not presented as the effect of 2,216,301 options ongoing would have been anti-dilutive. Furthermore, the exercise of 651,500 options (396,500 options in 2007) would not have been considered in such calculation, since their exercise prices were higher than the average market price during the reporting periods of 2008 and 2007.

**5. Supplemental information:**

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

| | May 31, 2008 | November 30, 2007 |
|---|---|---|
| Additions to property and equipment included in accounts payable and accrued liabilities | $ 31 | $ 147 |
| Additions to other assets financed included in accounts payable and accrued liabilities | 24 | 64 |
| Share issue costs included in accounts payable and accrued liabilities | 235 | – |

(b) During the six-month period ended May 31, 2008, the Company has not reclassified any amount in the net loss for realized losses on available-for-sale financial assets previously recorded in accumulated other comprehensive income ($64 in 2007).

**6. Capital disclosures:**

The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its research and development activities, general and administrative expenses, working capital and overall capital expenditures, including those associated with patents. The Company makes every attempt to manage its liquidity to minimize shareholder dilution when possible.

**6. Capital disclosures (continued):**

To fund its activities, the Company has followed an approach that relies almost exclusively on the issuance of common equity. Since inception, the Company has financed its liquidity needs primarily through public offerings of common shares and private placements. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including investment tax credits, grants, interest income as well as proceeds and royalties from technologies.

The Company's policy is to maintain a minimum level of debt. The Company has a line of credit of $1,800 for its short-term financing needs. As at May 31, 2008, this line of credit has not been used.

The capital management objectives remain the same as for the previous fiscal year.

At May 31, 2008, cash and bonds amounted to $69,832 and tax credits receivable amounted to $2,608, for a total of $72,440, including the financing in February 2008, as disclosed in note 4 to the unaudited consolidated financial statements ("Capital stock"). The Company believes that its cash position will be sufficient to finance its operations and capital needs for at least one year.

The Company's general policy on dividends is to retain cash to keep funds available to finance the Company's growth. However, the Board of Directors may, from time to time, choose to declare a dividend in assets if warranted by circumstances.

The Company is not subject to any capital requirements imposed by a regulator.

**7. Financial risk management:**

This note provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, and how the Company manages those risks.

(a) Credit risk:

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures from resulting in actual loss.

**7. Financial risk management (continued):**

(a) Credit risk (continued):

Financial instruments other than cash that potentially subject the Company to significant credit risk consist principally of bonds. The Company invests its available cash in fixed income instruments from governmental, paragovernmental and municipal bonds ($55,814 as at May 31, 2008) as well as from corporations ($6,036 as at May 31, 2008) with high credit ratings.

As at May 31, 2008, the Company's maximum credit risk exposure corresponded to the carrying amount of the bonds.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 6 to the unaudited consolidated financial statements ("Capital Disclosures"). It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors and/or the audit committee reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business.

The Company has investment policies that ensure the safety and preservation of its principal to ensure the Company's liquidity needs are met.

The instruments are selected with regard to the expected timing of expenditures and prevailing interest rates. Bonds mature during the following fiscal years: $18,601 in 2008, $13,153 in 2009, $14,238 in 2010, $12,560 in 2011 and $3,298 in 2012.

The following are the contractual maturities of financial liabilities as of May 31, 2008:

| (in thousands of dollars) | Carrying amount | Less than 1 year | 1 to 3 years |
|---|---|---|---|
| Accounts payable and accrued liabilities | $ 11,479 | $ 11,479 | $ – |
| Operating leases | 1,560 | 404 | 1,156 |
| | $ 13,039 | $ 11,883 | $ 1,156 |

**7. Financial risk management (continued):**

(c) Foreign currency risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar, primarily expenses for research and development incurred in US dollars, EURO and GBP. The Company does not use derivative financial instruments to reduce its foreign exchange exposure.

The Company manages foreign exchange risk by maintaining US cash on hand to support US forecasted cash outflows over a 12-month time horizon at the beginning of the fiscal year. The Company does not currently view its exposure to the EURO and GBP as a significant foreign exchange risk due to the limited volume of transactions conducted by the Company in these currencies.

The Company believes that the results of operations and cash flows would be affected by a sudden change in foreign exchange rates, but would not impair or enhance its ability to pay its US dollar denominated obligations.

The following table provides significant items exposed to foreign exchange as at May 31, 2008:

| (in thousands of Canadian dollars) | | | May 31, 2008 |
|---|---|---|---|
| | $US | EUR | GBP |
| Cash | 5,564 | – | – |
| Accounts receivable | – | – | – |
| Accounts payable and accrued liabilities | (3,330) | (245) | (513) |
| Balance sheet's elements exposed to foreign currency risk | 2,234 | (245) | (513) |

**7. Financial risk management (continued):**

(c) Foreign currency risk (continued):

The following exchange rates applied during the six-month period ended May 31, 2008:

| | Average rate Q2 2008 | Reporting date rate Q2 2008 |
|---|---|---|
| | (6 months) | |
| $US - $CA | 1.0050 | 0.9930 |
| EUR - $CA | 1.5222 | 1.5448 |
| GBP - $CA | 1.9927 | 1.9670 |

Based on the Company's foreign currency exposures noted above, varying the above foreign exchange rates to reflect a 5 percent strengthening of the Canadian dollar would have (increased) decreased the net loss as follows, assuming that all other variables remained constant:

| (in thousands of Canadian dollars) | $US | EURO | GBB |
|---|---|---|---|
| Decrease (increase) net loss | (118) | 12 | 26 |

An assumed 5 percent weakening of the Canadian dollar would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(d) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**7. Financial risk management (continued):**

(d) Interest rate risk (continued):

Short-term bonds of the Company are invested at fixed interest rates and mature in the short-term. Long-term bonds are also instruments that bear interest at fixed rates. The risk that the Company will realize a loss as a result of a decline in the fair value of its bonds is limited because these investments, although available for sale, are generally held to maturity.

Cash bears interest at a variable rate. Accounts receivable, accounts payable and accrued liabilities bear no interest.

Based on the value of variable interest-bearing cash during the six months ended May 31, 2008, an assumed 0.5 percentage point increase in interest rates during such period would have decreased the net loss by $11, with an equal but opposite effect for an assumed 0.5 percentage point decrease in interest rates.

**8. Financial instruments:**

(a) Carrying value and fair value:

The Company has determined that the carrying values of its short-term financial assets and liabilities, including cash, accounts receivable, as well as accounts payable and accrued liabilities, approximate their fair value because of the relatively short period to maturity of the instruments.

Bonds and investments in public companies are stated at estimated fair value.

(b) Interest income and expenses:

Interest income consists of interest earned on cash and bonds.

(c) Loss on exchange:

General and administrative expenses include a loss on foreign exchange of $20 ($408 in 2007) for the six-month period ended May 31, 2008.