

Consolidated Financial Statements of
(Unaudited)

THERATECHNOLOGIES INC.

Six-month periods ended May 31, 2009 and 2008

THERATECHNOLOGIES INC.

Consolidated Financial Statements
(Unaudited)

Periods ended May 31, 2009 and 2008

Financial Statements

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THE RATECHNOLOGIES INC.

Consolidated Balance Sheets
(Unaudited)

May 31, 2009 and November 30, 2008
(In thousands of dollars)

	May 31, 2009	November 30, 2008
		(Restated - note 2 (a))
Assets		
Current assets:		
Cash	\$ 3,834	\$ 133
Bonds	12,776	10,955
Accounts receivable	276	610
Tax credits receivable	2,874	1,784
Inventories	1,594	—
Research supplies	697	301
Prepaid expenses	523	397
	22,574	14,180
Bonds	44,714	35,249
Investments in public companies	261	41
Property and equipment	1,211	1,299
Other assets (note 3)	2,129	2,776
	\$ 70,889	\$ 53,545
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,483	\$ 7,198
Current portion of deferred revenues (note 7)	6,853	—
	12,336	7,198
Deferred revenues (note 7)	17,114	—
Shareholders' equity:		
Capital stock (note 4)	279,080	269,219
Contributed surplus	6,085	5,585
Accumulated other comprehensive income	1,287	372
Deficit	(245,013)	(228,829)
	(243,726)	(228,457)
Total shareholders' equity	41,439	46,347
	\$ 70,889	\$ 53,545

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Notes to Consolidated Statements of Earnings
(Unaudited)

Periods ended May 31, 2009 and 2008
(In thousands of dollars, except per share amounts)

	May 31,		May 31,	
	2009	2008	2009	2008
		(Restated - note 2 (a)) (3 months)		(Restated - note 2 (a)) (6 months)
Revenues:				
Royalties, technologies and other (note 7)	\$ 1,717	\$ 5	\$ 3,149	\$ 10
Interest	600	711	1,177	1,305
	2,317	716	4,326	1,315
Operating costs and expenses:				
Research and development	5,696	9,927	12,011	19,411
Tax credits	(422)	(701)	(1,090)	(1,189)
	5,274	9,226	10,921	18,222
General and administrative	1,857	1,401	4,178	2,999
Selling and market development	540	949	1,021	1,406
Patents and amortization of other assets	76	163	121	332
Fees associated with the strategic review process	—	359	—	602
Fees associated with collaboration and licensing agreement (note 7)	—	—	4,269	—
	7,747	12,098	20,510	23,561
Net loss	\$ (5,430)	\$ (11,382)	\$ (16,184)	\$ (22,246)
Basic and diluted loss per share (note 4 (c))				
	\$ (0.09)	\$ (0.20)	\$ (0.27)	\$ (0.39)
Weighted average number of common shares outstanding				
	60,395,481	58,112,741	60,227,527	56,675,416

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Comprehensive Earnings
(Unaudited)

Periods ended May 31, 2009 and 2008
(In thousands of dollars)

	May 31,		May 31,	
	2009	2008	2009	2008
		(Restated - note 2 (a)) (3 months)		(Restated - note 2 (a)) (6 months)
Net loss	\$ (5,430)	\$ (11,382)	\$ (16,184)	\$ (22,246)
Unrealized gains (losses) on available-for-sale financial assets	668	(276)	985	42
Reclassification adjustment for gain and losses on available-for-sale financial assets	(47)	—	(70)	—
Comprehensive loss	\$ (4,809)	\$ (11,658)	\$ (15,269)	\$ (22,204)

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Shareholders' Equity
(Unaudited)

Six-month period ended May 31, 2009
(In thousands of dollars)

	Capital stock		Contributed surplus	Accumulated other comprehensive income	Deficit	Total
	Number	Dollars				
Balance, November 30, 2008	58,215,090	\$ 269,219	\$ 5,585	\$ 372	\$ (228,230)	\$ 46,946
Change in accounting policies (note 2 (a))	-	-	-	-	(599)	(599)
Issuance of share capital (notes 4 and 7)	2,182,387	9,861	-	-	-	9,861
Stock-based compensation	-	-	500	-	-	500
Net loss	-	-	-	-	(16,184)	(16,184)
Unrealized gains on available-for-sale financial assets	-	-	-	915	-	915
Balance, May 31, 2009	60,397,477	\$ 279,080	\$ 6,085	\$ 1,287	\$ (245,013)	\$ 41,439

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Shareholders' Equity, Continued
(Unaudited)

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

	Capital stock		Contributed surplus	Accumulated other comprehensive income	Deficit	Total
	Number	Dollars				
Balance, November 30, 2007	54,531,133	\$ 238,842	\$ 4,807	\$ (333)	\$ (177,339)	\$ 65,977
Change in accounting policies (note 2 (a))	-	-	-	-	(941)	(941)
Issuance of share capital	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	-	-	-	-	(22,246)	(22,246)
Unrealized gains on available-for-sale financial assets	-	-	-	42	-	42
Balance, May 31, 2008	58,126,136	\$ 268,983	\$ 5,191	\$ (291)	\$ (202,464)	\$ 71,419

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Cash Flows (Unaudited)

Periods ended May 31, 2009 and 2008
(In thousands of dollars)

	May 31,		May 31,	
	2009	2008	2009	2008
		(Restated - note 2 (a))		(Restated - note 2 (a))
		(3 months)		(6 months)
Cash flows from operating activities:				
Net loss	\$ (5,430)	\$ (11,382)	\$ (16,184)	\$ (22,246)
Adjustments for:				
Amortization of property and equipment	147	158	284	309
Amortization of other assets	—	96	—	193
Stock-based compensation	295	252	500	461
	(4,988)	(10,876)	(15,400)	(21,283)
Changes in operating assets and liabilities:				
Interest receivable on bonds	167	134	(802)	81
Accounts receivable	283	15	359	156
Tax credits receivable	(422)	(702)	(1,090)	(1,190)
Inventories	—	—	(1,594)	—
Research supplies	93	(227)	226	723
Prepaid expenses	(67)	39	(126)	(289)
Accounts payable and accrued liabilities	(1,540)	2,833	(1,668)	2,747
Deferred revenues	(1,714)	—	23,967	—
	(3,200)	2,092	19,272	2,228
	(8,188)	(8,784)	3,872	(19,055)
Cash flows from financing activities:				
Share issuance	7	72	9,861	30,064
Share issue costs	—	(199)	(8)	(1,703)
	7	(127)	9,853	28,361
Cash flows from investing activities:				
Additions to property and equipment	(133)	(70)	(235)	(236)
Acquisition of bonds	—	(3,065)	(19,631)	(13,172)
Disposal of bonds	5,257	2,640	9,842	9,506
	5,124	(495)	(10,024)	(3,902)
Net (decrease) increase in cash	(3,057)	(9,406)	3,701	5,404
Cash, beginning of period	6,891	17,388	133	2,578
Cash, end of period	\$ 3,834	\$ 7,982	\$ 3,834	\$ 7,982

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 May 31, 2009 and 2008
(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 of its results. 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. New accounting policies:

(a) Adoption of new accounting standards:

Goodwill and intangible assets

Effective with the commencement of its 2009 fiscal year, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets*, which will replace Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. 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. The impact of adopting this standard has been to increase the opening deficit and to reduce other assets at the beginning of 2007 and 2008 by \$941 and \$599, respectively, which is the amount of patent costs related to periods prior to these dates. Furthermore, following the adoption of this standard, patents and amortization of other assets presented on the consolidated statements of earnings were reduced by \$43 for the six-month period ended May 31, 2008.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended May 31, 2009 and 2008
(In thousands of dollars, except per share amounts)

2. New accounting policies (continued):

(a) Adoption of new accounting standards (continued):

Inventories

Effective with the commencement of its 2009 fiscal year, the Company adopted CICA 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. As the Company had no inventories on November 30, 2008, the adoption of this section had no impact on the Company's consolidated financial statements.

(b) Future accounting changes:

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board of Canada ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, would be fully converged into IFRS, as issued by the International Accounting Standards Board ("IASB"). The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Company will be required to report under IFRS for its 2012 interim and annual financial statements. The Company will convert to these new standards according to the timetable set within these new rules. The Company has not determined the impact of adopting the standards on its consolidated financial statements.

3. Other assets:

	May 31, 2009		
	Cost	Accumulated amortization	Net book value
Intellectual property	\$ 7,670	\$ 7,670	\$ –
Research supplies	2,129	–	2,129
	\$ 9,799	\$ 7,670	\$ 2,129

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended May 31, 2009 and 2008
(In thousands of dollars, except per share amounts)

3. Other assets (continued):

	November 30, 2008		
	(Restated - note 2 (a))		
	Cost	Accumulated amortization	Net book value
Intellectual property	\$ 7,670	\$ 7,670	\$ —
Research supplies	2,751	—	2,751
Other assets	25	—	25
	\$ 10,446	\$ 7,670	\$ 2,776

4. Capital stock:

During the second quarter of 2009, the Company received subscriptions in the amount of \$7 for the issue of 2,550 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, 2008 and the six-month period ended May 31, 2009 were as follows:

	Number	Weighted average exercise price
Options as at November 30, 2007 (audited)	2,207,633	\$ 6.32
Granted	111,000	7.98
Exercised	(119,666)	3.32
Cancelled	(37,167)	9.57
Options as at November 30, 2008 (audited)	2,161,800	6.52
Granted	660,500	1.80
Cancelled and expired	(130,333)	8.17
Options as at May 31, 2009	2,691,967	\$ 5.28

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended May 31, 2009 and 2008
(In thousands of dollars, except per share amounts)

4. Capital stock (continued):

(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:

	2009	2008
Risk-free interest rate	1.80%	3.41%
Volatility	79%	70%
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, and the term of the option and the length of time of similar grants have remained outstanding in the past. 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, 2009 and 2008:

	Number of options	Weighted average grant-date fair value
Periods ended May 31 (6 months)		
2009	660,500	\$ 1.24
2008	101,000	5.45

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended May 31, 2009 and 2008
(In thousands of dollars, except per share amounts)

4. Capital stock (continued):

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

	Number of options	Weighted average grant-date fair value
Periods ended May 31 (3 months)		
2009	70,000	\$ 1.27
2008	20,000	4.95

(c) Diluted loss per share:

Diluted loss per share was not presented as the effect of options would have been anti-dilutive. Furthermore, 1,390,834 options (2008 - 651,500) could have an effect on the calculation in the future, since their exercise prices were higher than the average market price during the reporting periods of 2009 and 2008.

5. Supplemental information:

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

	May 31, 2009	November 30, 2008
		(Restated - note 2 (a))
Additions to property and equipment included in accounts payable and accrued liabilities	\$ 9	\$ 48
Share issue costs included in accounts payable and accrued liabilities	—	8

(b) For the six-month period ended May 31, 2009, the Company has reclassified in net earnings \$70 of realized gains on available-for-sale financial assets previously recorded in accumulated other comprehensive income (2008 - nil).

TheraTechnologies Inc.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended May 31, 2009 and 2008
(In thousands of dollars, except per share amounts)

6. 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 these instruments.

Bonds and investments in public companies are stated at estimated fair value, determined by prices quoted on active markets.

(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 \$727 (\$20 in 2008) for the six-month period ended May 31, 2009.

7. Collaboration and licensing agreement:

On October 28, 2008, the Company entered into a collaboration and licensing agreement with EMD Serono, Inc., an affiliate of Merck KGaA, regarding the exclusive commercialization rights of tesamorelin in the United States for the treatment of excess abdominal fat in HIV patients with lipodystrophy (the "Initial Product"). Theratechnologies retains all tesamorelin commercialization rights outside of the US.

Under the terms of the agreement, the Company is responsible for the development of the Initial Product up to obtaining marketing approval in the United States. The Company is also responsible for product production and for the development of a new formulation of the initial product. EMD Serono is responsible for conducting product commercialization activities.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended May 31, 2009 and 2008
(In thousands of dollars, except per share amounts)

7. Collaboration and licensing agreement (continued):

At the closing of the agreement, on December 15, 2008, the Company received US\$30,000 (CAD\$36,951) which includes an initial payment of US\$22,000 (CAD\$27,097) and US\$8,000 (CAD\$9,854) as a subscription for common shares in the Company by Merck KGaA at a price of US\$3.67 (CAD\$4.52) per share. The Company may receive up to US\$215,000 (CAD\$265,000), which amount includes the initial payment of US\$22,000, the equity investment of US\$8,000, as well as payments based on the achievement of certain development, regulatory and sales milestones. The Company will also be entitled to receive escalating royalties on annual net sales of tesamorelin in the US.

The initial payment of \$27,097 has been deferred and is being amortized over its estimated service period on a straight-line basis. This period may be modified in the future based on additional information that may be received by the Company.

For the six-month period ended May 31, 2009, an amount of \$3,137 related to this transaction was recognized as revenue. At May 31, 2009, the deferred revenues related to this transaction amounted to \$23,960.

The Company may conduct research and development for additional indications. EMD Serono will have the option to commercialize additional indications for tesamorelin in the US. If it exercises this option, EMD Serono will pay half of the development costs related to such additional indications. In such cases, the Company will also have the right, subject to EMD Serono's agreement, to participate in the promotion of the additional indications.

8. Comparative figures:

Certain of the 2008 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2009.