

Consolidated Financial Statements of  
(Unaudited)

# **THERATECHNOLOGIES INC.**

Nine-month periods ended August 31, 2009 and 2008

# **THERATECHNOLOGIES INC.**

Consolidated Financial Statements  
(Unaudited)

Periods ended August 31, 2009 and 2008

## **Financial Statements**

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# THE RATECHNOLOGIES INC.

Consolidated Balance Sheets  
(Unaudited)

August 31, 2009, with comparative figures as at November 30, 2008  
(in thousands of dollars)

	August 31, 2009	November 30, 2008
		(Restated - note 2 (a))
<b>Assets</b>		
Current assets:		
Cash	\$ 12,725	\$ 133
Bonds	9,562	10,955
Accounts receivable	220	610
Tax credits receivable	3,167	1,784
Inventories	1,594	–
Research supplies	1,029	301
Prepaid expenses	723	397
	29,020	14,180
Bonds	44,103	35,249
Investments in public companies	343	41
Property and equipment	1,128	1,299
Other assets (note 3)	–	2,776
	\$ 74,594	\$ 53,545
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,580	\$ 7,198
Current portion of deferred revenues (note 7)	6,850	–
	11,430	7,198
Deferred revenues (note 7)	15,402	–
Shareholders' equity:		
Capital stock (note 4)	279,080	269,219
Contributed surplus	6,290	5,585
Accumulated other comprehensive income	1,581	372
Deficit	(239,189)	(228,829)
	(237,608)	(228,457)
Total shareholders' equity	47,762	46,347
	\$ 74,594	\$ 53,545

See accompanying notes to unaudited consolidated financial statements.

# THE RATECHNOLOGIES INC.

Notes to Consolidated Statements of Earnings  
(Unaudited)

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

	August 31,		August 31,	
	2009	2008	2009	2008
		(Restated note 2 (a)) (3 months)		(Restated - note 2 (a)) (9 months)
Revenues:				
Royalties, technologies and other	\$ 12,601	\$ 106	\$ 15,750	\$ 116
Interest	547	604	1,724	1,909
	13,148	710	17,474	2,025
Operating costs and expenses:				
Research and development	5,681	9,602	17,692	29,013
Tax credits	(294)	(588)	(1,384)	(1,777)
	5,387	9,014	16,308	27,236
General and administrative	1,337	1,312	5,515	4,311
Selling and market development	495	1,281	1,516	2,687
Patents and amortization of other assets	105	180	226	512
Fees associated with the strategic review process	—	143	—	745
Fees associated with collaboration and licensing agreement (note 7)	—	—	4,269	—
	7,324	11,930	27,834	35,491
Net earnings (net loss)	\$ 5,824	\$ (11,220)	\$ (10,360)	\$ (33,466)
Basic and diluted earnings (loss) per share (note 4 (c))	\$ 0.10	\$ (0.19)	\$ (0.17)	\$ (0.59)

See accompanying notes to unaudited consolidated financial statements.

# THE RATECHNOLOGIES INC.

Consolidated Statements of Comprehensive Earnings  
(Unaudited)

Periods ended August 31, 2009 and 2008  
(in thousands of dollars)

	August 31,		August 31,	
	2009	2008	2009	2008
		(Restated note 2 (a)) (3 months)		(Restated - note 2 (a)) (9 months)
Net earnings (net loss)	\$ 5,824	\$ (11,220)	\$ (10,360)	\$ (33,466)
Unrealized gains on available-for-sale financial assets	342	20	1,327	62
Reclassification adjustment for gain and losses on available-for-sale financial assets	(48)	—	(118)	—
Comprehensive earnings (loss)	\$ 6,118	\$ (11,200)	\$ (9,151)	\$ (33,404)

See accompanying notes to unaudited consolidated financial statements.

# THE RATECHNOLOGIES INC.

Consolidated Statements of Shareholders' Equity  
(Unaudited)

Nine-month period ended August 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
Issuance of share capital (note 2 (a))	—	—	—	—	(599)	(599)
Share issue costs (notes 4 and 7)	2,182,387	9,861	—	—	—	9,861
Stock-based compensation	—	—	705	—	—	705
Net loss	—	—	—	—	(10,360)	(10,360)
Unrealized gains on available-for-sale financial assets	—	—	—	1,209	—	1,209
Balance, August 31, 2009	60,397,477	\$ 279,080	\$ 6,290	\$ 1,581	\$ (239,189)	\$ 47,762

See accompanying notes to unaudited consolidated financial statements.

# THE RATECHNOLOGIES INC.

Consolidated Statements of Shareholders' Equity, Continued  
(Unaudited)

Nine-month period ended August 31, 2008  
(in thousands of dollars)

	Capital stock		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
	Number	Dollars				
Balance, November 30, 2007	54,531,133	\$ 238,842	\$ 4,807	\$ (333)	\$ (177,339)	\$ 65,977
Change in accounting policies (not 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	119,666	397	-	-	-	397
Ascribed value	-	81	(81)	-	-	-
Stock-based compensation	-	-	678	-	-	678
Net loss	-	-	-	-	(33,466)	(33,466)
Unrealized gains on available-for-sale financial assets	-	-	-	62	-	62
Balance, August 31, 2008	58,154,470	\$ 269,098	\$ 5,404	\$ (271)	\$ (213,684)	\$ 60,547

See accompanying notes to unaudited consolidated financial statements.

# THE RATECHNOLOGIES INC.

## Consolidated Statements of Cash Flows (Unaudited)

Periods ended August 31, 2009 and 2008  
(in thousands of dollars)

	August 31,		August 31,	
	2009	2008	2009	2008
		(Restated - note 2 (a)) (3 months)		(Restated - note 2(a)) (9 months)
Cash flows from operating activities:				
Net earnings (net loss)	\$ 5,824	\$ (11,220)	\$ (10,360)	\$ (33,466)
Adjustments for:				
Amortization of property and equipment	157	156	441	465
Amortization of other assets	—	97	—	290
Stock-based compensation	205	217	705	678
	6,186	(10,750)	(9,214)	(32,033)
Changes in operating assets and liabilities:				
Interest receivable on bonds	74	105	(728)	186
Accounts receivable	56	(270)	415	(114)
Tax credits receivable	(293)	1,159	(1,383)	(31)
Stocks	—	—	(1,594)	—
Research supplies	1,797	357	2,023	1,080
Prepaid expenses	(200)	197	(326)	(92)
Accounts payable and accrued liabilities	(922)	(306)	(2,590)	2,441
Deferred revenues	(1,715)	—	22,252	—
	(1,203)	1,242	18,069	3,470
	4,983	(9,508)	8,855	(28,563)
Cash flows from financing activities:				
Share issuance	—	111	9,861	30,175
Share issue costs	—	(204)	(8)	(1,907)
	—	(93)	9,853	28,268
Cash flows from investing activities:				
Addition to property and equipment	(55)	(34)	(290)	(270)
Acquisition of bonds	—	—	(19,631)	(13,172)
Disposal of bonds	3,963	11,268	13,805	20,774
	3,908	11,234	(6,116)	7,332
Net change in cash	8,891	1,633	12,592	7,037
Cash, beginning of period	3,834	7,982	133	2,578
Cash, end of period	\$ 12,725	\$ 9,615	\$ 12,725	\$ 9,615

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, 2009 and 2008  
(in thousands of dollars, except per share amounts)

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## 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 December 1st 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 \$47 for the nine-month period ended August 31, 2008.

### 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.

# THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued  
(Unaudited)

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

## 2. New accounting policies (continued):

(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:

	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

# THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued  
(Unaudited)

Periods ended August 31, 2009 and 2008  
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## 4. Capital stock:

Under the terms of the agreement with EMD Serono Inc., the Company issued 2,179,837 common shares for a cash consideration of \$9,854 (see note 7).

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 nine-month period ended August 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	(141,834)	7.89
Options as at August 31, 2009	2,680,466	\$ 5.28

### (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

# THERATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued  
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Periods ended August 31, 2009 and 2008  
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#### 4. Capital stock (continued):

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 August 31, 2009 and 2008:

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	Number of options	Weighted average grant-date fair value
Periods ended August 31 (3 months)		
2009	–	\$ –
2008	–	–
Periods ended August 31 (9 months)		
2009	660,500	\$ 1.24
2008	101,000	5.45

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# THERATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued  
(Unaudited)

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

## 4. Capital stock (continued):

### (c) Diluted (earnings) loss per share:

The following table presents a reconciliation between basic and diluted earnings (loss) per share:

	2009	August 31, 2008	2009	August 31, 2008
		(3 months)		(9 months)
Basic earnings (loss) per share:				
Basic weighted average number of common shares outstanding	60,397,477	58,145,358	60,284,591	57,167,178
Basic earnings (loss) per share	\$ 0.10	\$ (0.19)	\$ (0.17)	\$ (0.59)
Diluted earnings (loss) per share:				
Basic weighted average number of common shares outstanding	60,397,477	58,145,358	60,284,591	57,167,178
Plus impact of stock options	237,498	—	—	—
Diluted weighted average number of common shares outstanding	60,634,975	58,145,358	60,284,591	57,167,178
Diluted earnings (loss) per share	\$ 0.10	\$ (0.19)	\$ (0.17)	\$ (0.59)

Furthermore, 1,380,833 options (2008 - 646,500) 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.

# THERATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued  
(Unaudited)

Periods ended August 31, 2009 and 2008  
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## 5. Supplemental information:

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

	August 31, 2009	November 30, 2008
		(Restated - note 2 (a))
Additions to property and equipment included in accounts payable and accrued liabilities	\$ 28	\$ 48
Share issue costs included in accounts payable and accrued liabilities	—	8

(b) For the nine-month period ended August 31, 2009, the Company has reclassified in net earnings \$118 of realized gains on available-for-sale financial assets previously recorded in accumulated other comprehensive income (2008 - nil).

(c) For the periods ended August 31, 2009, the research and development expenses include a charge of \$1,395 associated with the write-down of research supplies produced to obtain stability data and to validate the commercial production process, as requested by the US Food and Drug Administration ("FDA").

## 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.

# THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued  
(Unaudited)

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

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## 6. Financial instruments (continued):

### (c) Loss on exchange:

General and administrative expenses include a loss on foreign exchange of \$580 (gain of \$63 in 2008) for the nine-month period ended August 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.

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 nine-month period ended August 31, 2009, an amount of \$4,849 related to this transaction was recognized as revenue. At August 31, 2009, the deferred revenues related to this transaction amounted to \$22,248.

On August 12, 2009, the FDA accepted to file the New Drug Application ("NDA") made by the Company for its lead compound tesamorelin. Under the terms of the Company's collaboration and licensing agreement with EMD Serono, the acceptance to file tesamorelin NDA is associated with a payment of US\$10,000 (CAN\$10,884). This milestone payment has been recorded in the third quarter of 2009.

# **THERATECHNOLOGIES INC.**

Notes to Consolidated Financial Statements, Continued  
(Unaudited)

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

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## **7. Collaboration and licensing agreement (continued):**

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.