

**FOR IMMEDIATE RELEASE**

**Theratechnologies: Financial results for the third quarter of 2004 and recent operating highlights**

- *Recruitment of new CEO on track*
- *Sustained progress in the Company's three development programs*
- *Sound financial position*

**Montréal, October 13, 2004** – Theratechnologies (TXS:TH) reviews recent highlights and presents its consolidated financial statements and Management's Discussion and Analysis for the third quarter ended August 31st, 2004.

"In the third quarter, we continued to make good progress on all of our key business plan objectives," said Mr. Luc Tanguay, President and Chief Executive Officer. The recruitment of our new President and CEO is on track and we hope to be in a position to announce the appointment in the coming weeks. On the product side, we are presently finalizing the regulatory submission seeking approval for late-stage development of ThGRF. In addition, we recently launched a clinical program for ThGLP-1 in type 2 diabetes and disclosed positive data from our Phase I clinical trial on ThPTH in osteoporosis.

"On the financial side, the Company has maintained a sound position with \$46 million available, which is sufficient to fund more than two years of operations at the current burn rate," he added.

**Recent highlights**

**Recruitment of a new CEO**

Early in the quarter, the Company announced a reorganization of senior management responsibilities in order to position itself for the next development stages. One of the main elements of this reorganization involves hiring a new president and chief executive officer whose mandate will be to manage all upcoming aspects of the Company's pharmaceutical business, including commercialization of ThGRF. The recruitment process, which is being managed by a committee made up of independent members of the Board of Directors, is nearing completion and the Company expects to make the appointment in the coming weeks.

**ThGRF program**

In June 2004, the Company announced its decision to advance its lead compound, ThGRF, into late-stage development in HIV-associated lipodystrophy. In the third quarter, the Company was busy completing all requirements relating to this development, including consulting with experts in the field, refining regulatory strategy and trial protocols, identifying and selecting clinical sites and outside suppliers, as well as preparing its submission for a meeting with regulatory authorities near the end of the year.

**Type 2 diabetes program**

On October 12, Theratechnologies announced the beginning of a two-part Phase I clinical trial on ThGLP-1 (TH0318), a glucagon-like peptide-1 analogue (GLP-1). The primary objectives of the trial are to determine the safety and tolerability of ThGLP-1 in both healthy subjects and diabetic patients. Results are expected in the first quarter of 2005. ThGLP-1 is a stabilized analogue of human GLP-1 (7-36) that contains the full amino-acid sequence of the natural peptide. It is the most developed of several GLP-1 analogues designed by Theratechnologies' researchers.

### **Osteoporosis Program**

Data from a first Phase I clinical study testing ThPTH, a transdermal formulation of synthetic parathyroid hormone (PTH) (1-34) being developed for the treatment of osteoporosis in collaboration with ALZA Corporation, were the subject of a poster presentation on October 4th at the American Bone and Mineral Society Meeting in Seattle, Washington. Highlights of this study include rapid delivery of PTH, good bioavailability and biologic activity, and a good safety profile. The results of this first-in-humans study demonstrate the feasibility for the efficient transdermal delivery of ThPTH by Macroflux® technology.

### **Scientific presentations**

In August, results of the Phase II clinical trial on ThGRF in patients with HIV-related lipodystrophy were the subject of an oral presentation at the 12<sup>th</sup> International Congress of Endocrinology in Lisbon, Portugal by Dr. Steve Grinspoon, Lead Investigator for the US. In addition, results on body composition and functional performance of a Phase II study in patients with wasting secondary to chronic obstructive pulmonary disease were presented in September at the European Respiratory Annual Society Congress in Glasgow, Scotland. Earlier in the quarter, the Company also presented six scientific posters at the 86th Annual Meeting of the Endocrine Society, the world's largest and most active professional organization of endocrinologists. During the conference, Theratechnologies disclosed pharmacological results for eight new molecules discovered by the Company.

### **Management's Discussion and Analysis**

#### **Consolidation and investments**

On July 2<sup>nd</sup>, 2004, Celmed BioSciences proceeded with the acquisition of NewBiotics Inc. and issued shares of its capital stock to the shareholders of the acquired company. As a result, Theratechnologies' ownership in Celmed was reduced from 59.7% to 42% and, as of that date, the Company no longer exercises control over Celmed. The investment held in this company is now accounted for by the equity method. Therefore, Theratechnologies' consolidated results include Celmed's results until July 2<sup>nd</sup>, 2004. (See note 2 a in the notes to the consolidated financial statements).

#### **Summary of operating results**

Consolidated revenues for the three months ended August 31, 2004 amounted to \$585,000 (\$516,000 without Celmed), compared to \$941,000 (\$582,000 without Celmed) for the same period in 2003. For the nine-month period ended August 31, 2004, consolidated revenues were \$2,146,000 (\$1,591,000 without Celmed), compared to \$3,109,000 (\$2,015,000 without Celmed) for the same period in the third quarter of 2003. These variances reflect a reduction in interest revenues due to a reduction of the liquidities (cash and cash equivalents, and bonds), and lower investment yields caused by declining interest rates.

Consolidated research and development (R&D) expenditures, before tax credits and grants, for the third quarter of 2004, totalled \$3,311,000 (\$2,804,000 without Celmed), compared to \$5,529,000 (\$4,101,000 without Celmed) in 2003. For the nine-month period ended August 31, 2004, R&D expenditures amounted to \$14,876,000 (\$10,815,000 without Celmed), compared to \$15,680,000 (\$11,513,000 without Celmed) for the same period in 2003. The higher level of expenditures in 2003 is related to the ThGRF Phase II program, which was completed during the second quarter of 2004.

For the third quarter, general and administrative expenses, selling and market development expenses, patents and amortization of other assets (SG&A) were \$1,803,000 (\$1,613,000 without Celmed), compared to \$2,404,000 (\$1,385,000 without Celmed) for the same period in 2003. For the nine-month period ended August 31, 2004, the SG&A expenses were \$6,644,000 (\$4,627,000 without Celmed), compared to \$6,878,000 (\$4,343,000 without Celmed) for the same period in 2003. The increase in SG&A expenses is mainly due to the preparations necessary for late-stage development of ThGRF and its future commercialization.

During the first quarter, Celmed examined the relevance of pursuing its activities in the treatment of Parkinson's disease. Subsequently, Celmed discontinued this program and reclassified related expenses under "Discontinued operations". In April 2004, Celmed disposed of the shares of its US subsidiary in the field of neurology. In exchange, the buyer, a non-controlling shareholder, gave up its 430,000 shares in Celmed.

These shares were cancelled and, as a result, Theratechnologies' interest in Celmed increased from 58.5% to 59.7%.

As mentioned previously, on July 2<sup>nd</sup>, 2004, Celmed BioSciences acquired NewBiotics Inc. As a result, Theratechnologies' ownership in Celmed was reduced from 59.7% to 42%. An adjustment clause relating to the ownership of the founding investors could reduce this to 37.3%. The Company recognized a gain of \$1,046,000 on the transaction in the third quarter. An additional gain of up to \$2,332,000 could be recognized if the adjustment clause is enacted.

During the nine-month period ended August 31, 2004, the Company realized gains on investments in companies and gains on dilution of \$5,789,000. These gains are detailed in note 4 of the consolidated financial statements.

Consequently, the Company's operating loss for the three-month period ended August 31, 2004, was \$4,289,000 (before proportionate share in loss of a company under significant influence, restructuring costs, gains on investments in companies and gains on dilution, non-controlling interest and discontinued operations), compared to \$6,695,000 for the same period in 2003. The net loss for the third quarter was \$4,150,000, compared to \$6,581,000 in 2003. For the nine-month period, the net loss amounted to \$11,943,000, compared to \$19,719,000 in 2003.

### Quarterly financial information

The selected financial information provided below is derived from the Company's unaudited quarterly financial statements for each of the last eight quarters. This quarterly information has been restated pursuant to the change in accounting policy described below, and in order to account for discontinued operations.

|                                     | 2004       |            |            | 2003        |            |            | 2002       |            |            |
|-------------------------------------|------------|------------|------------|-------------|------------|------------|------------|------------|------------|
|                                     | Q3         | Q2         | Q1         | Q4          | Q3         | Q2         | Q1         | Q4         | Q3         |
| Revenue                             | \$ 585     | \$ 782     | \$ 779     | \$ 897      | \$ 941     | \$ 1,028   | \$ 1,140   | \$ 1,206   | \$ 1,381   |
| Loss from continuing operations (1) | \$ (4,137) | \$ (6,139) | \$ (1,731) | \$ (7,771)  | \$ (6,232) | \$ (6,571) | \$ (4,988) | \$ (7,029) | \$ (4,405) |
| Net loss                            | \$ (4,150) | \$ (5,910) | \$ (1,883) | \$ (14,079) | \$ (6,581) | \$ (7,388) | \$ (5,751) | \$ (7,925) | \$ (4,930) |
| Basic and diluted loss per share:   |            |            |            |             |            |            |            |            |            |
| Continuing activities (1)           | \$ (0.12)  | \$ (0.17)  | \$ (0.06)  | \$ (0.25)   | \$ (0.20)  | \$ (0.21)  | \$ (0.16)  | \$ (0.23)  | \$ (0.14)  |
| Net loss                            | \$ (0.12)  | \$ (0.17)  | \$ (0.06)  | \$ (0.46)   | \$ (0.21)  | \$ (0.24)  | \$ (0.19)  | \$ (0.26)  | \$ (0.16)  |

(1) Net of non-controlling interest

### Financial position

Theratechnologies has maintained a sound cash position. At August 31, 2004, cash and cash equivalents as well as bonds amounted to \$44,309,000 and tax credits and grants receivable amounted to \$1,367,000, for a total of \$45,676,000.

For the three months ended August 31, 2004, the burn rate relating to operating activities, excluding changes in operating assets and liabilities, was \$3,882,000 (\$3,265,000 without Celmed), compared to \$5,794,000 (\$4,258,000 without Celmed) in 2003, reflecting lower R&D expenses as described previously. For the nine months ended August 31, 2004, the burn rate was \$16,490,000 (\$11,654,000 without Celmed).

In the first quarter of 2004, Theratechnologies issued 4,542,000 common shares for cash consideration of \$15,672,000, including the over-allotment option. During the second quarter of 2004, the Company issued 15,292 common shares for cash consideration of \$49,000. There were no common shares issued during the third quarter.

At October 12, 2004, the number of shares issued and outstanding was 35,476,423, while outstanding options granted under the stock option plan were 2,534,832. In addition, 3,800,000 warrants were outstanding.

During the period, there were no material changes in contractual obligations, other than in the ordinary course of business.

Economic and industry factors in the quarter were substantially unchanged from those reported in the Company's 2003 annual report.

#### **Subsequent event**

On October 7, 2004, Andromed, a company under significant influence, announced a value-building and restructuring plan aimed at increasing its technological and strategic value, in preparation for a merger or sale, in whole or in part, of the company. In order to obtain the necessary funds to implement this plan, Andromed also proceeded on October 6, 2004, with a private offering with four major shareholders who acquired 7,222,222 shares from Andromed's capital stock for a total amount of \$1,300,000. In connection with this transaction, Theratechnologies acquired 1,388,889 shares of Andromed for a total value of \$250,000. Following this transaction, Theratechnologies holds a 23.1% interest in Andromed. To ensure that all its shareholders are provided an opportunity to participate in the private offering on comparable terms and conditions, Andromed proceeded to issue share rights for a maximum value of \$944,000. As part of a support agreement, Andromed's four major shareholders agreed to acquire any common shares not acquired under the rights issue up to a maximum of 5,000,000 shares at \$0.18 per share in predetermined proportions. Accordingly, Theratechnologies could be required to purchase up to 1,388,889 additional shares for total consideration of \$250,000 as per the terms of the agreement.

#### **Change in accounting policies**

In accordance with amendments made to Section 3870 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, the Company implemented by anticipation the recommendation to account for stock option awards to employees using the fair value method on a retroactive basis and by restating the comparative figures for 2003 (see note 2 b in the notes to the consolidated financial statements).

#### **About Theratechnologies**

Theratechnologies (TSX: TH) is a Canadian biopharmaceutical company engaged in the discovery and development of therapeutic peptides in the field of endocrinology and metabolism. The Company is steadily expanding its product portfolio through proprietary discovery technologies. The most advanced clinical program (completed Phase II) targets HIV-associated lipodystrophy. Theratechnologies is also conducting clinical trials in wasting associated with chronic disease (Phase II), type 2 diabetes (Phase I) and osteoporosis (Phase I).

#### **Additional information about Theratechnologies**

Further information relating to Theratechnologies is available on the Company's website at [www.theratech.com](http://www.theratech.com). The Company is listed on the Toronto Stock Exchange under the symbol TH. Additional information, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

*This press release contains forward-looking statements, which reflect the Company's current expectations regarding future events. Such statements inherently involve numerous risks and uncertainties, including the availability of funds and resources to pursue R&D projects, the successful and timely completion of clinical studies, the ability of the Company to take advantage of the business opportunities in the biopharmaceutical industry, the granting of the necessary authorizations by the regulatory authorities, and the general economic conditions. Actual future results may differ materially from the anticipated results expressed in the forward looking statements contained in this press release and the Company does not undertake to update this information. Investors are cautioned against placing undue importance on forward-looking information contained herein and should consult the Company's 2003 Annual Report, which contains a more exhaustive analysis of risks and uncertainties connected to the businesses of the Company.*

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**THERATECHNOLOGIES INC.**  
**CONSOLIDATED BALANCE SHEET**  
*(in thousands of dollars)*

|  | <b>August 31</b>   | November 30                          |
|--|--------------------|--------------------------------------|
|  | <b>2004</b>        | 2003                                 |
|  | <b>(Unaudited)</b> | (Audited)<br>(Restated,<br>note 2 b) |
| <b>Assets</b>  |                    |                                      |
| Current assets:  |                    |                                      |
| Cash and cash equivalents  | \$ 454             | \$ 53                                |
| Bonds  | 15,351             | 39,303                               |
| Accounts receivable  | 232                | 463                                  |
| Tax credits and grants receivable  | 1,367              | 1,117                                |
| Research supplies  | 1,387              | 990                                  |
| Prepaid expenses   | 378                | 597                                  |
|  | <b>19,169</b>      | 42,523                               |
| Bonds  | <b>28,504</b>      | 34,484                               |
| Investments in public companies<br>(market value : \$3,048 in 2004; \$5,876 in 2003) | <b>1,206</b>       | 2,395                                |
| Investment in a private company (note 2 a)   | <b>17,392</b>      | -                                    |
| Property, plant and equipment  | <b>1,987</b>       | 5,324                                |
| Other assets   | <b>8,586</b>       | 9,866                                |
|  | <b>\$ 76,844</b>   | \$ 94,592                            |
| <b>Liabilities and Shareholders' Equity</b>  |                    |                                      |
| Current liabilities:   |                    |                                      |
| Accounts payable and accrued liabilities   | \$ 3,195           | \$ 7,132                             |
| Deferred gain  | -                  | 3,762                                |
| Non-controlling interest   | -                  | 13,264                               |
| Shareholders' equity:  |                    |                                      |
| Capital stock (note 3)   | 155,512            | 139,791                              |
| Contributed surplus (note 2 b)   | 2,173              | 1,565                                |
| Deficit  | <b>(84,036)</b>    | <b>(70,922)</b>                      |
|  | <b>73,649</b>      | 70,434                               |
| Subsequent event (note 8)  |                    |                                      |
|  | <b>\$ 76,844</b>   | \$ 94,592                            |

See accompanying notes to unaudited consolidated financial statements.

**THERATECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENT OF EARNINGS**  
**PERIODS ENDED AUGUST 31**

*(in thousands of dollars, except per share amounts) (Unaudited)*

|   | Third quarter     |                         | Nine months        |                         |
|---|-------------------|-------------------------|--------------------|-------------------------|
|   | 2004              | 2003                    | 2004               | 2003                    |
|   |                   | (Restated,<br>note 2 b) |                    | (Restated,<br>note 2 b) |
| Revenues:   |                   |                         |                    |                         |
| Royalties, technologies and other   | \$ 75             | \$ 12                   | \$ 214             | \$ 122                  |
| Interest  | 510               | 929                     | 1,932              | 2,987                   |
|   | <b>585</b>        | 941                     | <b>2,146</b>       | 3,109                   |
| Operating costs and expenses:   |                   |                         |                    |                         |
| Research and development  | 3,311             | 5,529                   | 14,876             | 15,680                  |
| Tax credits and grants  | (240)             | (297)                   | (1,159)            | (1,019)                 |
|   | <b>3,071</b>      | 5,232                   | <b>13,717</b>      | 14,661                  |
| General and administrative  | 1,348             | 1,998                   | 5,335              | 5,636                   |
| Selling and market development  | 273               | 247                     | 719                | 710                     |
| Patents and amortization of other assets                                  | 182               | 159                     | 590                | 532                     |
|   | <b>4,874</b>      | 7,636                   | <b>20,361</b>      | 21,539                  |
| Operating loss before undernoted items                                    | <b>(4,289)</b>    | (6,695)                 | <b>(18,215)</b>    | (18,430)                |
| Restructuring costs   | -                 | -                       | -                  | (1,423)                 |
| Proportionate share in loss of a companies<br>under significant influence | <b>(1,137)</b>    | (312)                   | <b>(1,630)</b>     | (1,274)                 |
| Gains on investments in companies<br>and gains on dilution (note 4)       | <b>1,046</b>      | -                       | <b>5,789</b>       | 772                     |
| Loss from continuing operations<br>before non-controlling interest        | <b>(4,380)</b>    | (7,007)                 | <b>(14,056)</b>    | (20,355)                |
| (Loss) gain from discontinued operations (note 5)                         | <b>(22)</b>       | (565)                   | <b>109</b>         | (3,130)                 |
| Non-controlling interest  | <b>252</b>        | 991                     | <b>2,004</b>       | 3,766                   |
| Net loss  | \$ <b>(4,150)</b> | \$ (6,581)              | \$ <b>(11,943)</b> | \$ (19,719)             |
| Basic and diluted loss per share:   |                   |                         |                    |                         |
| Continuing operations net of<br>non-controlling interest                  | \$ <b>(0.12)</b>  | \$ (0.20)               | \$ <b>(0.35)</b>   | \$ (0.58)               |
| Discontinued operations net of<br>non-controlling interest                | \$ -              | \$ (0.01)               | \$ -               | \$ (0.06)               |
| Net Loss  | \$ <b>(0.12)</b>  | \$ (0.21)               | \$ <b>(0.35)</b>   | \$ (0.64)               |

See accompanying notes to unaudited consolidated financial statements.

**THERATECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**PERIODS ENDED AUGUST 31**

*(in thousands of dollars) (Unaudited)*

|  | Third quarter  |                         | Nine months     |                         |
|--|----------------|-------------------------|-----------------|-------------------------|
|  | 2004           | 2003                    | 2004            | 2003                    |
|  |                | (Restated,<br>note 2 b) |                 | (Restated,<br>note 2 b) |
| <b>Cash flows from operating activities:</b>                         |                |                         |                 |                         |
| Net loss   | \$ (4,150)     | \$ (6,581)              | \$ (11,943)     | \$ (19,719)             |
| Adjustments for:   |                |                         |                 |                         |
| Depreciation of property, plant and equipment                        | 90             | 414                     | 623             | 1,729                   |
| Amortization of other assets   | 125            | 184                     | 393             | 536                     |
| Stock-based compensation   | 192            | 303                     | 709             | 933                     |
| Proportionate share in loss of companies under significant influence | 1,137          | 312                     | 1,630           | 1,274                   |
| Gains on investments in companies and gains on dilution              | (1,046)        | -                       | (5,789)         | (772)                   |
| Loss (gain) from discontinued operations                             | 22             | 565                     | (109)           | 3,130                   |
| Non-controlling interest   | (252)          | (991)                   | (2,004)         | (3,766)                 |
|  | <b>(3,882)</b> | <b>(5,794)</b>          | <b>(16,490)</b> | <b>(16,655)</b>         |
| <b>Change in operating assets and liabilities:</b>                   |                |                         |                 |                         |
| Interest receivable on bonds   | 151            | (125)                   | 112             | 491                     |
| Accounts receivable  | 291            | 214                     | 143             | 200                     |
| Tax credits and grants receivable                                    | (241)          | 1,154                   | (1,154)         | 1,473                   |
| Research supplies  | (334)          | 156                     | (60)            | (1,141)                 |
| Prepaid expenses   | 197            | (70)                    | (349)           | (355)                   |
| Accounts payable and accrued liabilities                             | (324)          | 395                     | (2,086)         | (1,936)                 |
|  | <b>(260)</b>   | <b>1,724</b>            | <b>(3,394)</b>  | <b>(1,268)</b>          |
| Cash used in discontinued operations                                 | (18)           | (461)                   | (424)           | (2,825)                 |
|  | <b>(4,160)</b> | <b>(4,531)</b>          | <b>(20,308)</b> | <b>(20,748)</b>         |
| <b>Cash flows from financing activities:</b>                         |                |                         |                 |                         |
| Share issue  | -              | 129                     | 15,721          | 248                     |
| Share issue costs  | (30)           | -                       | (1,157)         | -                       |
|  | <b>(30)</b>    | <b>129</b>              | <b>14,564</b>   | <b>248</b>              |
| <b>Cash flows from investing activities:</b>                         |                |                         |                 |                         |
| Addition to property, plant and equipment                            | (74)           | (75)                    | (452)           | (1,173)                 |
| Disposal of property, plant and equipment                            | -              | 24                      | 122             | 24                      |
| Addition to other assets   | (315)          | (72)                    | (702)           | (298)                   |
| Acquisition of bonds   | -              | (6,892)                 | (26,102)        | (10,091)                |
| Disposal of bonds  | 2,814          | 8,100                   | 32,158          | 34,475                  |
| Disposal of shares in companies                                      | -              | -                       | 2,481           | 132                     |
| Net investments related to discontinued operations                   | -              | (31)                    | 10              | (133)                   |
| Cash and cash equivalents relating to Celmed                         | (1,370)        | -                       | (1,370)         | -                       |
|  | <b>1,055</b>   | <b>1,054</b>            | <b>6,145</b>    | <b>22,936</b>           |
| Net change in cash and cash equivalents                              | <b>(3,135)</b> | <b>(3,348)</b>          | <b>401</b>      | <b>2,436</b>            |
| Cash and cash equivalents, beginning of period                       | <b>3,589</b>   | <b>5,980</b>            | <b>53</b>       | <b>196</b>              |
| Cash and cash equivalents, end of period                             | \$ <b>454</b>  | \$ <b>2,632</b>         | \$ <b>454</b>   | \$ <b>2,632</b>         |

See accompanying notes to unaudited consolidated financial statements.  
See note 7 for supplemental cash flow information.

**THERATECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENTS OF DEFICIT**  
**NINE-MONTH PERIODS ENDED AUGUST 31**  
*(in thousands of dollars) (Unaudited)*

|  | 2004        | 2003        |
|--|-------------|-------------|
| Restated deficit, beginning of period (note 2 b) | \$ (70,922) | \$ (37,123) |
| Net loss   | (11,943)    | (19,719)    |
| Share issue costs                                | (1,171)     | -           |
| Deficit, end of period                           | \$ (84,036) | \$ (56,842) |

See accompanying notes to unaudited consolidated financial statements.

**THERATECHNOLOGIES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**PERIODS ENDED AUGUST 31, 2004**  
*(in thousands of dollars, except per share amounts) (Unaudited)*

**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. Except for the change described below, the same accounting policies as described in the Company's latest annual report have been used. 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. Significant accounting policies**

**a) Consolidation and investments**

On July 2, 2004, Celmed BioSciences Inc. ("Celmed") acquired NewBiotics Inc. and issued shares from its capital stock to the shareholders of the acquired company. Consequently, Theratechnologies' interest in Celmed decreased from 59.7% to 42%. Since that date, the Company no longer exercises significant influence in Celmed and the interest in this company is accounted for by the equity method.



**THERATECHNOLOGIES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**PERIODS ENDED AUGUST 31, 2004**  
*(in thousands of dollars, except per share amounts) (Unaudited)*

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**2. Significant accounting policies (continued)**

**a) Consolidation and investments (continued)**

Celmed's assets and liabilities as of the date of the transaction were as follows:

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|  |    |        |
|--|----|--------|
| Cash and cash equivalents                | \$ | 1,370  |
| Bonds                                    |    | 23,739 |
| Accounts receivable                      |    | 88     |
| Tax credits and grants receivable        |    | 904    |
| Research supplies                        |    | 426    |
| Prepaid expenses                         |    | 503    |
| Property, plant and equipment            |    | 2,793  |
| Other assets                             |    | 1,564  |
| Accounts payable and accrued liabilities |    | 2,502  |

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**b) Change in accounting policy**

On December 1<sup>st</sup>, 2001, the Company early implemented the recommendations issued in Section 3870 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, "Stock-based compensation and other stock-based payments". Only awards granted as of the implementation date were covered by the new standard. Under this standard, awards of stock options to non-employees must be accounted for on a fair value basis. No compensation cost was recognized for stock option awards to employees. However, the *pro forma* information on the net loss and net loss per share was disclosed as if the Company had accounted for these awards to employees on a fair value basis for options granted since the implementation date. Any consideration resulting from the exercise of stock options was credited to share capital.

In accordance with the subsequent changes made to Section 3870, the Company early implemented the recommendation to account for stock option awards to employees using the fair value method on a retroactive basis and by restating the comparative figures for 2003 in order to take into account the cost relating to these awards, which had been included in the *pro forma* information note for prior periods since December 1, 2001. Consequently, the deficit at the beginning of 2004 and 2003 increased by \$1,457 and \$428, respectively. A compensation expenditure totaling \$239 and \$848 was posted for the third quarter of 2003 and the nine-month period ended August 31, 2003, respectively. The restated results for 2003 are presented below:

**THERATECHNOLOGIES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**PERIODS ENDED AUGUST 31, 2004**  
*(in thousands of dollars, except per share amounts) (Unaudited)*

**2. Significant accounting policies (continued)**

**b) Change in accounting policy (continued)**

|   | Third quarter<br>2003 | Nine months<br>2003 |
|---|-----------------------|---------------------|
| Costs and expenses:   |                       |                     |
| General and administrative                                  | \$ 192                | \$ 650              |
| Research and development                                    | 82                    | 196                 |
| Selling and market development                              | 29                    | 86                  |
|   | 303                   | 932                 |
| Non-controlling interest                                    | (64)                  | (84)                |
| Stock-based compensation<br>net of non-controlling interest | \$ 239                | \$ 848              |

**3. Capital stock**

|   | August 31<br>2004 | November 30<br>2003 |
|---|-------------------|---------------------|
| Authorized in unlimited number and<br>without par value:      |                   |                     |
| Common shares   |                   |                     |
| Preferred shares issuable in one<br>or more series            |                   |                     |
| Issued:   |                   |                     |
| 35,476,423 common shares<br>(30,918,631 at November 30, 2003) | \$ 155,512        | \$ 139,791          |

In February 2004, the Company concluded an underwriting agreement regarding an initial public offering for the sale and issue of 4,542,500 common shares, including the over-allotment option, at an issue price of \$3.45 per share, for a cash consideration of \$15,672. Share issue costs amounted to \$1,171.

During the second quarter of 2004, the Company issued 15,292 common shares for cash consideration of \$49.

**THERATECHNOLOGIES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**PERIODS ENDED AUGUST 31, 2004**  
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**3. Capital stock (continued)**

**a) 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 assumptions for Theratechnologies: risk-free interest rate ranging from 3.65% to 4.99%, expected dividend yield of nil, expected volatility ranging from 36% to 76% and expected option life of 6 years. The weighted-average fair value of the 100,000 options granted during the nine-month period ended August 31, 2004 is \$1.99 per option. In regard to Celmed, a private company, the stock option awards to non-employees are accounted for in Theratechnologies' results using the fair value method until July 2, 2004 (see note 2 a). The assumptions are as follows: risk-free interest rate ranging from 3.81% to 4.65%, expected dividend yield of nil, no expected volatility and expected option life of 6 years. Celmed granted 580,000 options with a weighted-average fair value of \$1.04 for the seven-month period ended July 2, 2004.

The Black-Scholes model, used by the Company to calculate option values, as well as other accepted option valuation models, was developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values.

**b) 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 options and warrants would not have been considered in such computation since their exercise prices were higher than the average market price during the reporting period of 2004.

**4. Gains on investments in companies and gains on dilution**

During the quarters ended February 29, 2004 and May 31, 2004, the Company realized gains on investments in companies of \$1,929 and \$89, respectively, resulting from the disposal of shares in public companies.

In January and February 2004, Celmed's institutional investors exercised adjustment clauses in relation to their investment, thus reducing the Company's interest in Celmed from 61.6% to 56.1%. In February 2004, Celmed proceeded with the redemption for a nominal amount of shares of certain shareholders because the milestones connected to these shares were not achieved. In April 2004, Celmed proceeded with the redemption of shares of a non-controlling shareholder in connection with the sale of the US subsidiary. These redemptions resulted in an increase of Theratechnologies' interest in Celmed to 59.7%.

Consequently, the deferred gain of \$3,762 was attributed to non-controlling interests, the amount of \$760 in connection with the redemption was deducted from the non-controlling interests and the adjustment to their interest resulted in a gain of \$2,725, which was the amount recorded.

In connection with the transaction described in note 2a, Theratechnologies' interest in Celmed was reduced from 59.7% to 42%. An adjustment clause in connection with the interest of founding investors could reduce the Company's interest to 37.3%. The Company recognized a gain of \$1,046 on the transaction in the third quarter. An additional gain of up to \$2,332 could be recognized if the adjustment clause is enacted.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
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**5. Discontinued operations**

During the first quarter of 2004, Celmed studied the relevance of pursuing its activities in the treatment of Parkinson's disease. In this context, Celmed discontinued its development activities for this program.

In April 2004, Celmed disposed of the shares of its US subsidiary in the field of neurology.

Consequently, operating results for these activities have been reclassified under item "Discontinued operations". The results are shown below:

|  | Third quarter |            | Nine months |             |
|--|---------------|------------|-------------|-------------|
|  | 2004          | 2003       | 2004        | 2003        |
| Costs and expenses:  |               |            |             |             |
| General and administrative   | \$ 22         | \$ 13      | \$ (20)     | \$ 443      |
| Research and development   | -             | 422        | 322         | 1,852       |
| Patents and amortization<br>of other assets                                | -             | 172        | 21          | 546         |
| Restructuring costs  | -             | -          | -           | 322         |
| Gain on disposal of subsidiary   | -             | -          | (432)       | -           |
| Future income taxes  | -             | (42)       | -           | (33)        |
| (Loss) gain from discontinued operations                                   | \$ (22)       | \$ (565)   | \$ 109      | \$ (3,130)  |
| (Loss) gain from discontinued operations<br>attributable to parent company | \$ (13)       | \$ (348)   | \$ 64       | \$ 1,928    |
| Non-controlling interest<br>before discontinued activities                 | \$ 243        | \$ 774     | \$ 2,049    | \$ 2,564    |
| Loss from continuing operations,<br>net of non-controlling interest        | \$ (4,137)    | \$ (6,233) | \$ (12,007) | \$ (17,791) |

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**6. Segmented information**

|  | Therapeutic peptides | Cell therapy (1) | Other segments | Intersegment adjustments and eliminations | Total   |
|--|----------------------|------------------|----------------|---|---------|
| <b>Third quarter ended August 31, 2004</b> |                      |                  |                |   |         |
| Revenues from external customers           | \$ 69                | \$ -             | \$ -           | \$ -                                      | 69      |
| Intersegment revenues                      | 22                   | -                | -              | (16)                                      | 6       |
| Loss from discontinued operations          | -                    | (22)             | -              | -   | (22)    |
| Net loss                                   | (3,685)              | (1,278)          | (234)          | 1,047                                     | (4,150) |
| Total assets                               | 58,316               | 19,724           | 1,206          | (70)                                      | 79,176  |

**Nine months ended August 31, 2004**

|                                   |          |         |       |       |          |
|-----------------------------------|----------|---------|-------|-------|----------|
| Revenues from external customers  | \$ 208   | \$ -    | \$ -  | \$ -  | 208      |
| Intersegment revenues             | 64       | -       | -     | (58)  | 6        |
| Gain from discontinued operations | -        | 308     | -     | (199) | 109      |
| Net loss                          | (12,968) | (3,841) | (727) | 5,593 | (11,943) |
| Total assets                      | 58,316   | 19,724  | 1,206 | (70)  | 79,176   |

(1) The net loss for this sector was reduced by the non-controlling interest

|   | Therapeutic peptides | Cell therapy (1) | Other segments | Intersegment adjustments and eliminations | Total   |
|---|----------------------|------------------|----------------|---|---------|
| <b>Third quarter ended August 31, 2003 (restated)</b> |                      |                  |                |   |         |
| Revenues from external customers                      | \$ 12                | \$ -             | \$ -           | \$ -                                      | 12      |
| Intersegment revenues                                 | 38                   | -                | -              | (38)                                      | -       |
| Loss from discontinued operations                     | -                    | (565)            | -              | -   | (565)   |
| Net loss  | (4,679)              | (1,592)          | (312)          | 2   | (6,581) |
| Total assets  | 60,868               | 51,958           | 2,883          | (301)                                     | 115,408 |

**Nine months ended August 31, 2003 (restated)**

|                                   |          |         |         |       |          |
|-----------------------------------|----------|---------|---------|-------|----------|
| Revenues from external customers  | \$ 122   | \$ -    | \$ -    | \$ -  | 122      |
| Intersegment revenues             | 114      | -       | -       | (114) | -        |
| Loss from discontinued operations | -        | (3,130) | -       | -     | (3,130)  |
| Net loss                          | (13,177) | (6,042) | (1,274) | 774   | (19,719) |
| Total assets                      | 60,868   | 51,958  | 2,883   | (301) | 115,408  |

(1) The net loss for this sector was reduced by the non-controlling interest

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**7. Supplemental cash flow information**

The following transactions were concluded by the Company and did not impact cash flow.

|  | <b>August 31</b> | November 30 |
|--|------------------|-------------|
|  | <b>2004</b>      | 2003        |
| Addition to property, plant and equipment financed by accounts payable and accrued liabilities | \$ 43            | \$ 92       |
| Addition to other assets financed by accounts payable and accrued liabilities                  | 756              | 19          |
| Share issue costs financed by accounts payable and accrued liabilities                         | 14               | -           |

General and administrative expenses include a gain on exchange of \$55 for the third quarter of 2004 (none in 2003) and a gain of \$95 for the nine-month period ended August 31, 2004 (gain of \$286 in 2003).

**8. Subsequent event**

On October 7, 2004, Andromed, a company under significant influence, announced a value-building and restructuring plan aimed at increasing its technological and strategic value, in preparation for a merger or sale, in whole or in part, of the company. On October 6, 2004, Andromed also proceeded with a private offering with four major shareholders who acquired 7,222,222 shares from Andromed's capital stock for a total amount of \$1,300. In connection with this transaction, Theratechnologies acquired 1,388,889 shares from Andromed's capital stock for a total value of \$250. As a result of the private offering, Theratechnologies holds a 23.1% interest in Andromed. To ensure that all its shareholders are provided an opportunity to participate in the private offering on comparable terms and conditions, Andromed proceeded to issue share rights for a maximum value of \$944. As part of a support agreement, Andromed's four major shareholders agreed to acquire any common shares not acquired under the rights issue up to a maximum of 5,000,000 shares at \$0.18 per share in predetermined proportions. Accordingly, Theratechnologies could be required to purchase up to 1,388,889 additional shares for total consideration of \$250, as per the terms of the agreement.

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