



Consolidated Financial Statements of  
(Unaudited)

## **THERATECHNOLOGIES INC.**

Three-month periods ended February 28, 2006 and 2005

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## **Financial Statements**

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# THE RATECHNOLOGIES INC.

Consolidated Balance Sheets  
(Unaudited)

February 28, 2006, with comparative figures as at November 30, 2005  
(in thousands of dollars)

	February 28, 2006	November 30, 2005
		(Audited)
<b>Assets</b>		
Current assets:		
Cash	\$ 70	\$ 1,087
Bonds	12,203	12,515
Accounts receivable	360	258
Tax credits receivable	1,154	978
Research supplies	2,033	1,929
Prepaid expenses	503	425
	16,323	17,192
Bonds	20,616	25,424
Investments in public companies (market value: \$1,546 in 2006; \$1,424 in 2005)	836	836
Property and equipment	1,959	2,072
Other assets (note 2)	9,425	8,121
	\$ 49,159	\$ 53,645
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,151	\$ 4,639
Shareholders' equity:		
Capital stock (note 3)	155,659	155,659
Contributed surplus	3,036	2,587
Deficit	(114,687)	(109,240)
	44,008	49,006
Subsequent event (note 7)		
	\$ 49,159	\$ 53,645

See accompanying notes to unaudited consolidated financial statements.

# THE RATECHNOLOGIES INC.

Consolidated Statements of Earnings  
(Unaudited)

Three-month periods ended February 28, 2006 and 2005  
(in thousands of dollars, except per share amounts)

	First quarter	
	2006	2005
Revenues:		
Royalties, technologies and other (note 4)	\$ 178	\$ 14,672
Interest	297	430
	475	15,102
Operating costs and expenses:		
Research and development	4,285	3,220
Tax credits	(176)	(232)
	4,109	2,988
General and administrative	1,458	1,323
Selling and market development	204	222
Patents and amortization of other assets	151	151
	5,922	4,684
Operating (loss) earnings before undernoted item	(5,447)	10,418
Proportionate share in loss of companies under significant influence	—	(1,147)
Net (loss) earnings	\$ (5,447)	\$ 9,271
Basic and diluted (loss) earnings per share (note 3 (c))	\$ (0.15)	\$ 0.26
Weighted average number of common shares outstanding	35,552,985	35,513,549

See accompanying notes to unaudited consolidated financial statements.

# THE RATECHNOLOGIES INC.

Consolidated Statements of Deficit  
(Unaudited)

Three-month periods ended February 28, 2006 and 2005  
(in thousands of dollars)

	First quarter	
	2006	2005
Deficit, beginning of period	\$ (109,240)	\$ (94,897)
Net (loss) earnings	(5,447)	9,271
Deficit, end of period	\$ (114,687)	\$ (85,626)

See accompanying notes to unaudited consolidated financial statements.

# THE RATECHNOLOGIES INC.

Consolidated Statements of Cash Flows  
(Unaudited)

Three-month periods ended February 28, 2006 and 2005  
(in thousands of dollars)

	First quarter	
	2006	2005
<b>Cash flows from operating activities:</b>		
Net (loss) earnings	\$ (5,447)	\$ 9,271
Adjustments for:		
Depreciation of property and equipment	142	136
Amortization of other assets	123	120
Stock-based compensation	449	34
Proportionate share in loss of companies under significant influence	—	1,147
	(4,733)	10,708
<b>Changes in operating assets and liabilities:</b>		
Interest receivable on bonds	245	(221)
Accounts receivable	(177)	(40)
Tax credits receivable	(176)	(232)
Research supplies	(1,414)	(1,763)
Prepaid expenses	(78)	(84)
Accounts payable and accrued liabilities	585	915
	(1,015)	(1,425)
	(5,748)	9,283
<b>Cash flows from investing activities:</b>		
Addition to property and equipment	(77)	(279)
Addition to other assets	(67)	(124)
Acquisition of bonds	—	(7,389)
Disposal of bonds	4,875	3,625
	4,731	(4,167)
Net (decrease) increase in cash	(1,017)	5,116
Cash, beginning of period	1,087	436
Cash, end of period	\$ 70	\$ 5,552

See note 6 (a) for supplemental cash flow information.

See accompanying notes to unaudited consolidated financial statements.

# THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
(Unaudited)

Three-month periods ended February 28, 2006 and 2005  
(in thousands of dollars, except per share amounts)

## 1. Basis of presentation:

The financial statements included in this report are unaudited and reflect normal and recurring adjustments which are, in the opinion of the Company, considered necessary for a fair presentation. These financial statements have been prepared in conformity with Canadian generally accepted accounting principles. The same accounting policies as described in the Company's latest annual report have been used. 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. Other assets:

	February 28, 2006		
	Cost	Accumulated depreciation	Net book value
Intellectual property	\$ 7,670	\$ 2,037	\$ 5,633
Patent costs	1,637	790	847
Research supplies	2,870	—	2,870
Long-term accounts receivable	75	—	75
	<u>\$ 12,252</u>	<u>\$ 2,827</u>	<u>\$ 9,425</u>

	November 30, 2005		
	Cost	Accumulated depreciation	Net book value
Intellectual property	\$ 7,670	\$ 1,941	\$ 5,729
Patent costs	1,754	922	832
Research supplies	1,560	—	1,560
Deferred development costs	70	70	—
	<u>\$ 11,054</u>	<u>\$ 2,933</u>	<u>\$ 8,121</u>

# THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued  
(Unaudited)

Three-month periods ended February 28, 2006 and 2005  
(in thousands of dollars, except per share amounts)

## 3. Capital stock:

	February 28, 2006	November 30, 2005
		(Audited)
Authorized in unlimited number and without par value:		
Common shares		
Preferred shares issuable in one or more series		
Issued:		
35,552,985 common shares	\$ 155,659	\$ 155,659

### (a) Share option plan:

Changes in outstanding options granted under the Company's stock option plan for the year ended November 30, 2005 and the three-month period ended February 28, 2006 were as follows:

	Number	Weighted average exercise price
Options as at November 30, 2004 (audited)	2,781,500	\$ 7.28
Granted	535,000	1.59
Cancelled	(1,015,836)	8.33
Options as at November 30, 2005 (audited)	2,300,664	5.50
Granted	650,000	1.66
Cancelled	(139,164)	8.50
Options as at February 28, 2006	2,811,500	\$ 4.46



# THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued  
(Unaudited)

Three-month periods ended February 28, 2006 and 2005  
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### 3. 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:

	2006	2005
Risk-free interest rate	4.03%	3.63%
Expected volatility	50%	52%
Expected average option life in years	6	6
Expected dividend yield	Nil	Nil

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

The following table summarizes the weighted average fair value of stock options granted during the periods ended February 28, 2006 and 2005:

	Number	Weighted average grant-date fair value
2006	650,000	\$ 0.86
2005	5,000	1.08

(c) Diluted loss per share:

Diluted loss per share was not presented as the effect of options and warrants would have been anti-dilutive. Furthermore, the exercise of 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 periods of 2006 and 2005.

# Theratechnologies Inc.

Notes to Consolidated Financial Statements, Continued  
(Unaudited)

Three-month periods ended February 28, 2006 and 2005  
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#### 4. Royalties, technologies and other:

In December 2004, the Company signed an agreement to terminate three co-development projects using ALZA Corporation's Macroflux® transdermal technology. The Company retains the rights to develop its molecules with all other delivery systems and ALZA retains the commercialization rights to Macroflux® with other molecules. In this regard, the Company received a payment of \$14,640 (US\$12,000).

#### 5. Segmented information:

In 2006, the Company is conducting its activities in one segment, therapeutic peptides. Pursuant to the sale of Celmed BioSciences Inc. on June 20, 2005, the Company no longer conducts activities in cellular therapy. Segmented information for 2005 is as follows:

	2005				
	Therapeutic peptides	Cellular therapy	Other segments	Intersegment adjustments and eliminations	Total
Revenues from external customers	\$ 14,660	\$ -	\$ -	\$ -	\$ 14,660
Revenues from companies under significant influence	12	-	-	-	12
Net earnings (net loss)	10,418	(998)	(149)	-	9,271
Total assets	66,437	10,369	1,213	(144)	77,875

#### 6. Supplemental information:

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

	2006	2005
Additions to property and equipment and other assets financed by accounts payable and accrued liabilities	\$ 90	\$ 163

(b) General and administrative expenses include a gain on exchange of \$49 for the first quarter of 2006 (a loss of \$50 for the same period in 2005).

# THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued  
(Unaudited)

Three-month periods ended February 28, 2006 and 2005  
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## 7. Subsequent event:

On March 21, 2006, the Company concluded a public offering for the sale and issue of 10,500,000 common shares for cash proceeds of \$20,475. The issuance costs total approximately \$1,376. On a *pro forma* basis, the Company's liquidities (cash, bonds and tax credits receivable) would have amounted to \$53,142 at February 28, 2006, assuming that the public offering was concluded on that date. The Company has also granted an over-allotment option to the underwriters to purchase up to 1,575,000 additional shares at an issue price of \$1.95 per share, exercisable at any time until 30 days following the date of closing.