

Consolidated Financial Statements of
(Unaudited)

THERATECHNOLOGIES INC.

Six-month periods ended May 31, 2006 and 2005

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Financial Statements

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THE RATECHNOLOGIES INC.

Consolidated Balance Sheets
(Unaudited)

May 31, 2006, with comparative figures as at November 30, 2005
(in thousands of dollars)

	May 31, 2006	November 30, 2005
		(Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,705	\$ 1,087
Bonds	15,580	12,515
Accounts receivable	297	258
Tax credits receivable	1,340	978
Research supplies	2,394	1,929
Prepaid expenses	638	425
	21,954	17,192
Bonds	29,780	25,424
Investments in public companies (market value: \$1,110 in 2006; \$1,424 in 2005)	836	836
Property and equipment	1,844	2,072
Other assets (note 2)	8,485	8,121
	\$ 62,899	\$ 53,645
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,583	\$ 4,639
Shareholders' equity:		
Capital stock (note 3)	177,509	155,659
Contributed surplus	3,177	2,587
Deficit	(122,370)	(109,240)
	58,316	49,006
	\$ 62,899	\$ 53,645

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Earnings
(Unaudited)

Periods ended May 31, 2006 and 2005
(in thousands of dollars, except per share amounts)

	May 31,		May 31,	
	2006	2005	2006	2005
	(3 months)		(6 months)	
Revenues:				
Royalties, technologies and other (note 4)	\$ 4	\$ 158	\$ 182	\$ 14,830
Interest	391	473	688	903
	395	631	870	15,733
Operating costs and expenses:				
Research and development	5,361	3,246	9,646	6,466
Tax credits	(208)	(256)	(384)	(488)
	5,153	2,990	9,262	5,978
General and administrative	1,082	1,364	2,540	2,687
Selling and market development	228	363	432	585
Patents and amortization of other assets	153	698	304	849
	6,616	5,415	12,538	10,099
Operating (loss) earnings before undernoted item	(6,221)	(4,784)	(11,668)	5,634
Proportionate share in loss of companies under significant influence	-	(5,302)	-	(6,449)
Loss on investments in companies	-	(2,659)	-	(2,659)
Net loss	\$ (6,221)	\$ (12,745)	\$ (11,668)	\$ (3,474)
Basic and diluted loss per share (note 3 (c))				
	\$ (0.14)	\$ (0.36)	\$ (0.29)	\$ (0.10)
Weighted average number of common shares outstanding				
	44,091,368	35,524,730	39,869,091	35,519,201

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Deficit
(Unaudited)

Periods ended May 31, 2006 and 2005
(in thousands of dollars)

	May 31,		May 31,	
	2006	2005	2006	2005
	(3 months)		(6 months)	
Deficit, beginning of period	\$ (114,687)	\$ (85,626)	\$ (109,240)	\$ (94,897)
Net loss	(6,221)	(12,745)	(11,668)	(3,474)
Share issue costs	(1,462)	–	(1,462)	–
Deficit, end of period	\$ (122,370)	\$ (98,371)	\$ (122,370)	\$ (98,371)

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Cash Flows (Unaudited)

Periods ended May 31, 2006 and 2005
(in thousands of dollars)

	May 31,		May 31,	
	2006	2005	2006	2005
	(3 months)		(6 months)	
Cash flows from operating activities:				
Net loss	\$ (6,221)	\$ (12,745)	\$ (11,668)	\$ (3,474)
Adjustments for:				
Depreciation of property and equipment	151	139	293	275
Amortization of other assets	102	563	225	683
Stock-based compensation	141	129	590	163
Proportionate share in loss of companies under significant influence	—	5,302	—	6,449
Loss on investments in company	—	2,659	—	2,659
	(5,827)	(3,953)	(10,560)	6,755
Changes in operating assets and liabilities:				
Interest receivable on bonds	(312)	267	(67)	46
Accounts receivable	63	90	(114)	50
Tax credits receivable	(186)	(260)	(362)	(492)
Research supplies	455	25	(959)	(1,738)
Prepaid expenses	(135)	(311)	(213)	(395)
Accounts payable and accrued liabilities	(739)	(1,625)	(154)	(710)
	(854)	(1,814)	(1,869)	(3,239)
	(6,681)	(5,767)	(12,429)	3,516
Cash flows from financing activities:				
Share issuance	21,850	60	21,850	60
Share issue costs	(1,270)	—	(1,270)	—
	20,580	60	20,580	60
Cash flows from investing activities:				
Addition to property and equipment	(68)	(101)	(145)	(380)
Addition to other assets	(47)	(67)	(114)	(191)
Disposal of other assets	80	—	80	—
Acquisition of bonds	(16,082)	—	(16,082)	(7,389)
Disposal of bonds	3,853	7,926	8,728	11,551
Fees related to the disposal of shares in a private company	—	(4)	—	(4)
	(12,264)	7,754	(7,533)	3,587
Net increase in cash and cash equivalents	1,635	2,047	618	7,163
Cash and cash equivalents, beginning of period	70	5,552	1,087	436
Cash and cash equivalents, end of period	\$ 1,705	\$ 7,599	\$ 1,705	\$ 7,599

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)

Periods ended May 31, 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:

	May 31, 2006		
	Cost	Accumulated depreciation	Net book value
Intellectual property	\$ 7,670	\$ 2,134	\$ 5,536
Patent costs	1,639	819	820
Research supplies	2,054	-	2,054
Long-term accounts receivable	75	-	75
	\$ 11,438	\$ 2,953	\$ 8,485

	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	-
	\$ 11,054	\$ 2,933	\$ 8,121

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended May 31, 2006 and 2005
(in thousands of dollars, except per share amounts)

3. Capital stock:

	May 31, 2006	November 30, 2005
		(Audited)
Authorized in unlimited number and without par value:		
Common shares		
Preferred shares issuable in one or more series		
Issued:		
46,759,880 common shares (35,552,985 in 2005)	\$ 177,509	\$ 155,659

During the second quarter of 2006, the Company concluded a public offering for the sale and issue of 11,192,500 common shares, including the over-allotment option, for cash proceeds of \$21,825. The issuance costs amounted to \$1,462.

During the second quarter of 2006, the Company also issued 14,395 common shares to employees for a cash consideration of \$25, 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, 2005 and the six-month period ended May 31, 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	785,000	1.69
Cancelled	(154,664)	8.13
Options as at May 31, 2006	2,931,000	\$ 4.34

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended May 31, 2006 and 2005
(in thousands of dollars, except per share amounts)

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	4.06%	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 May 31, 2006 and 2005:

	Number	Weighted average grant-date fair value
2006	785,000	\$ 0.88
2005	415,000	0.97

(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 3,761,000 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)

Periods ended May 31, 2006 and 2005
(in thousands of dollars, except per share amounts)

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:

	Therapeutic peptides	Cellular therapy	Other segments	Intersegment adjustments and eliminations	Total
Second quarter ended May 31, 2005					
Revenues from external customers	\$ 150	\$ -	\$ -	\$ -	\$ 150
Revenues from companies under significant influence	8	-	-	-	8
Loss from continuing operations	(4,784)	(5,149)	(153)	(2,659)	(12,745)
Net loss	(4,784)	(5,149)	(153)	(2,659)	(12,745)
Total assets	60,527	2,565	1,060	(329)	63,823
Six months ended May 31, 2005					
Revenues from external customers	\$ 14,810	\$ -	\$ -	\$ -	\$ 14,810
Revenues from companies under significant influence	20	-	-	-	20
Earnings (loss) from continuing operations	5,634	(6,147)	(302)	(2,659)	(3,474)
Net earnings (loss)	5,634	(6,147)	(302)	(2,659)	(3,474)
Total assets	60,527	2,565	1,060	(329)	63,823

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Periods ended May 31, 2006 and 2005
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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	\$ 69	\$ 163
Share issue costs financed by accounts payable and accrued liabilities	192	-

(b) General and administrative expenses include a gain on exchange of \$76 for the six-month period ended May 31, 2006 (a loss of \$3 for the same period in 2005).