



Consolidated Financial Statements of
(Unaudited)

THERATECHNOLOGIES INC.

Three-month periods ended February 28, 2007 and 2006

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Financial Statements

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THE RATECHNOLOGIES INC.

Consolidated Balance Sheets
(Unaudited)

February 28, 2007, with comparative figures as at November 30, 2006
(in thousands of dollars)

	February 28, 2007	November 30, 2006
		(Audited)
Assets		
Current assets:		
Cash	\$ 55,017	\$ 16
Bonds (note 2)	10,643	18,023
Accounts receivable	572	289
Tax credits receivable	1,570	1,911
Research supplies	2,175	850
Prepaid expenses	506	391
	70,483	21,480
Bonds (note 2)	16,878	17,641
Investments in public companies (market value: \$1,317 in 2007; \$1,112 in 2006) (note 2)	1,317	836
Property and equipment	1,648	1,580
Other assets (note 3)	8,648	9,431
	\$ 98,974	\$ 50,968
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,715	\$ 6,493
Shareholders' equity:		
Capital stock (note 4)	236,417	177,552
Contributed surplus	4,769	3,486
Accumulated other comprehensive income (note 2)	313	—
Deficit	(149,240)	(136,563)
	(148,927)	(136,563)
Total shareholders' equity	92,259	44,475
	\$ 98,974	\$ 50,968

See accompanying notes to unaudited consolidated financial statements.

TheraTechnologies Inc.

Consolidated Statements of Earnings (Unaudited)

Three-month periods ended February 28, 2007 and 2006
(in thousands of dollars, except per share amounts)

	First quarter	
	2007	2006
Revenues:		
Royalties, technologies and other	\$ 4	\$ 178
Interest	283	297
	<u>287</u>	<u>475</u>
Operating costs and expenses:		
Research and development	8,100	4,285
Tax credits	(762)	(176)
	<u>7,338</u>	<u>4,109</u>
General and administrative	1,798	1,458
Selling and market development	395	204
Patents and amortization of other assets	195	151
	<u>9,726</u>	<u>5,922</u>
Net loss	\$ (9,439)	\$ (5,447)
Basic and diluted loss per share (note 4 (c))	\$ (0.20)	\$ (0.15)
Weighted average number of common shares outstanding	47,025,731	35,552,985

Consolidated Statements of Comprehensive Earnings (Unaudited)

Three-month periods ended February 28, 2007 and 2006
(in thousands of dollars)

	First quarter	
	2007	2006
Net loss	\$ (9,439)	\$ (5,447)
Unrealized gains on available-for-sale financial assets	234	-
Comprehensive loss	<u>\$ (9,205)</u>	<u>\$ (5,447)</u>

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Shareholders' Equity
(Unaudited)

Three-month periods ended February 28, 2007 and 2006
(in thousands of dollars)

	Capital stock		Contributed surplus	Accumulated other comprehensive income	Deficit	Total
	Number	Dollars				
Balance, November 30, 2006	46,775,359	\$ 177,552	\$ 3,486	\$ -	\$ (136,563)	\$ 44,475
Issuance of share capital	6,875,000	57,750	-	-	-	57,750
Share issue costs	-	-	-	-	(3,238)	(3,238)
Exercise of stock options:						
Cash proceeds	203,499	763	-	-	-	763
Ascribed value		352	(352)	-	-	-
Stock-based compensation	-	-	1,635	-	-	1,635
Changes in accounting policies (note 2)	-	-	-	79	-	79
Net loss	-	-	-	-	(9,439)	(9,439)
Unrealized gains on available-for-sale financial assets	-	-	-	234	-	234
Balance, February 28, 2007	53,853,858	\$ 236,417	\$ 4,769	\$ 313	\$ (149,240)	\$ 92,259

See accompanying notes to unaudited consolidated financial statements.

THE RATECHNOLOGIES INC.

Consolidated Statements of Cash Flows
(Unaudited)

Three-month periods ended February 28, 2007 and 2006
(in thousands of dollars)

	First quarter	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (9,439)	\$ (5,447)
Adjustments for:		
Depreciation of property and equipment	116	142
Amortization of other assets	126	123
Stock-based compensation	1,635	449
	(7,562)	(4,733)
Changes in operating assets and liabilities:		
Interest receivable on bonds	200	245
Accounts receivable	(258)	(177)
Tax credits receivable	341	(176)
Research supplies	(679)	(1,414)
Prepaid expenses	(115)	(78)
Accounts payable and accrued liabilities	(130)	585
	(641)	(1,015)
	(8,203)	(5,748)
Cash flows from financing activities:		
Share issuances	58,513	-
Share issue costs	(2,986)	-
	55,527	-
Cash flows from investing activities:		
Addition to property and equipment	(64)	(77)
Addition to other assets	(34)	(67)
Disposal of bonds	7,775	4,875
	7,677	4,731
Net increase (decrease) in cash	55,001	(1,017)
Cash, beginning of period	16	1,087
Cash, end of period	\$ 55,017	\$ 70

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)

Three-month periods ended February 28, 2007 and 2006
(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, 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. Changes in accounting policies:

Effective the commencement of its 2007 fiscal year, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. These new Handbook Sections, which apply to fiscal years beginning on after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. A new financial statement has been presented in relation to the new standards.

Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured either at fair market value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Three-month periods ended February 28, 2007 and 2006
(in thousands of dollars, except per share amounts)

2. Changes in accounting policies (continued):

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

As a result of the adoption of these standards, the Company has classified its bonds and investments in public companies as available-for-sale financial assets and are now measured at fair market value. Previously, these investments were recorded at the lower of cost and fair market value. On December 1, 2007, the impact of \$79 of these changes in accounting policies is included in the opening balance of accumulated other comprehensive income.

The adoption of standards of Sections 3251, 3861 and 3855 has no impact on the financial statements for the period ended February 28, 2007.

3. Other assets:

	February 28, 2007		
	Cost	Accumulated depreciation	Net book value
Intellectual property	\$ 7,670	\$ 2,424	\$ 5,246
Patent costs	1,752	906	846
Research supplies	2,506	-	2,506
Other assets	50	-	50
	\$ 11,978	\$ 3,330	\$ 8,648

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Three-month periods ended February 28, 2007 and 2006
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3. Other assets (continued):

	November 30, 2006		
	Cost	Accumulated depreciation	Net book value
Intellectual property	\$ 7,670	\$ 2,327	\$ 5,343
Patent costs	1,737	876	861
Research supplies	3,152	-	3,152
Other assets	75	-	75
	\$ 12,634	\$ 3,203	\$ 9,431

4. Capital stock:

During the first quarter of 2007, the Company concluded a public offering for the sale and issue of 6,875,000 common shares, including the over-allotment option, for cash proceeds, of \$57,750. The issuance costs amounted to \$3,238.

(a) Share option plan:

Changes in outstanding options granted under the Company's stock option plan for the year ended November 30, 2006 and the three-month period ended February 28, 2007 were as follows:

	Number	Weighted average exercise price
Options as at November 30, 2005 (audited)	2,300,664	\$ 5.50
Granted	840,000	1.69
Cancelled	(234,664)	6.70
Expired	(355,000)	4.60
Options as at November 30, 2006 (audited)	2,551,000	4.26
Granted	288,500	8.23
Cancelled	(4,167)	1.59
Exercised	(203,499)	3.75
Options as at February 28, 2007	2,631,834	\$ 5.77

Theratechnologies Inc.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Three-month periods ended February 28, 2007 and 2006
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4. Capital stock (continued):

(a) Share option plan: (continued):

Between March 1, 2007 and March 27, 2007, 270,000 stock options were exercised at a weighted average price of \$1.92 per share for a cash consideration of \$518,000.

(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:

	2007	2006
Risk-free interest rate	4.04%	4.03%
Volatility	68%	50%
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, the term of the option and historical exercise patterns. 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, 2007 and 2006:

	Number	Weighted average grant-date fair value
2007	288,500	\$ 5.31
2006	650,000	0.86

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

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4. Capital stock (continued):

(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 606,500 options (2006 - 3,421,500 options and warrants) has not been considered in such computation, since their exercise prices were higher than the average market price during the reporting periods of 2007 and 2006.

5. Supplemental information:

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

	First quarter	
	February 28, 2007	November 30, 2006
Additions to property and equipment included in accounts payable and accrued liabilities	\$ 122	\$ 2
Additions to other assets financed included in accounts payable and accrued liabilities	16	36
Share issue costs included in accounts payable and accrued liabilities	257	5

(b) General and administrative expenses include a loss on foreign exchange of \$13 for the first quarter of 2007 (a gain of \$49 for the same period in 2006).

(c) The Company has reclassified in the net loss \$23 of realized losses on available-for-sale financial assets previously recorded in accumulated other comprehensive income.

(d) In December 2006, the Company received tax credits of \$1,103.