

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION:**

### **Consolidation and investments**

Since July 2nd, 2004, the Company has not exercised control over Celmed and the investment held in this company is now accounted for by the equity method. Theratechnologies' 2004 consolidated results include Celmed's results until that date. (See note 2 a in the notes to the consolidated financial statements).

### **Summary of operating results**

Consolidated revenues for the three-month period ended February 28, 2005 amounted to \$15,102,000, compared to \$779,000 (\$519,000 without Celmed) for the same period in 2004. The increase is largely due to a payment of \$14,640,000 (US\$12,000,000) received in connection with the Company's December 2004 agreement with ALZA to terminate three co-development projects using ALZA's Macroflux® transdermal technology. The Company has retained commercialization rights to develop its compounds with alternative drug delivery systems while ALZA retained commercialization rights on the use of its Macroflux® technology with other compounds.

Consolidated research and development (R&D) expenditures, before tax credits and grants, for the first quarter of 2005, totaled \$3,220,000, compared to \$5,890,000 (\$4,097,000 without Celmed) in 2004. The higher level of expenditures in 2004 is mostly related to activities surrounding ThPTH. These activities ceased following the agreement with ALZA.

For the first quarter, general and administrative expenses, selling and market development expenses, patents and amortization of other assets (SG&A) were \$1,696,000, compared to \$2,316,000 (\$1,329,000 without Celmed) for the same period in 2004. The increase in SG&A expenses is mainly due to the preparations required for late-stage development of ThGRF and its future commercialization.

Consequently, the Company posted operating earnings for the three-month period ended February 28, 2005 of \$10,418,000 (before proportionate share in loss of a company under significant influence and gains on investments in companies and gains on dilution, non-controlling interest and discontinued operations), compared to an operating loss of \$7,094,000 for the same period in 2004. Net earnings for the first quarter of 2005 were \$9,271,000 (net loss of \$5,369,000 without the ALZA payment), compared to a net loss \$1,883,000 in 2004.

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### 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. This information includes Celmed's results until July 2, 2004. (See note 2 a in the notes to the consolidated financial statements).

	2005		2004			2003			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Revenues	\$ 15,102	\$ 503	\$ 585	\$ 782	\$ 779	\$ 897	\$ 941	\$ 1,028	
Operating earnings (loss) (1)	\$ 10,418	\$ (4,655)	\$ (4,289)	\$ (6,832)	\$ (7,094)	\$ (7,805)	\$ (6,694)	\$ (6,513)	
Earnings (loss) from continuing operations (2)	\$ 9,271	\$ (10,873)	\$ (4,137)	\$ (6,139)	\$ (1,731)	\$ (7,771)	\$ (6,232)	\$ (6,571)	
Net earnings (loss)	\$ 9,271	\$ (10,873)	\$ (4,150)	\$ (5,910)	\$ (1,883)	\$ (14,079)	\$ (6,581)	\$ (7,388)	
Basic and diluted earnings (loss) per share:									
Continuing activities (2)	\$ 0.26	\$ (0.31)	\$ (0.12)	\$ (0.17)	\$ (0.06)	\$ (0.25)	\$ (0.20)	\$ (0.21)	
Net earnings (loss)	\$ 0.26	\$ (0.31)	\$ (0.12)	\$ (0.17)	\$ (0.06)	\$ (0.46)	\$ (0.21)	\$ (0.24)	

(1) Before restructuring costs, proportionate share in loss of a company under significant influence, gains on investments in companies and gains on dilution, discontinued operations and non-controlling interest

(2) Net of non-controlling interest

### Financial position

Theratechnologies has maintained a sound cash position. At February 28, 2005, liquidities, namely cash and cash equivalents as well as bonds, amounted to \$51,155,000 and tax credits and grants receivable amounted to \$986,000, for a total of \$52,141,000.

For the three-month period ended February 28, 2005, cash from operating activities, excluding changes in operating assets and liabilities, was \$10,708,000, compared to a burn rate of \$6,470,000 (\$4,289,000 without Celmed) in 2004, reflecting the payment from ALZA and lower R&D expenses as described above.

At April 11, 2005, the number of shares issued and outstanding was 35,513,549, while outstanding options granted under the stock option plan were 2,858,161. In addition, 3,800,000 warrants were outstanding.

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

Economic and industry factors were substantially unchanged from those reported in the Company's 2004 annual report.