

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THIRD QUARTER

### Revenues

Consolidated revenues for the three-month period ended August 31, 2007 amounted to \$748,000, compared to \$412,000 in 2006. For the nine-month period ended August 31, 2007, consolidated revenues were \$1,840,000, compared to \$1,282,000 for the same period in 2006. Revenues for the quarter and for the first nine months of the current year are mainly composed of interest from investments. The difference between revenues in 2007 compared to 2006 is mainly attributable to an increase in liquidities related to the financing completed in February 2007.

### R&D Activities

Consolidated research and development (R&D) expenditures, before tax credits, totalled \$8,715,000 for the third quarter of 2007, compared to \$6,440,000 in 2006. For the nine-month period ended August 31, 2007, R&D expenses were \$23,391,000, compared to \$16,086,000 for the same period in 2006. The increase in R&D spending in 2007 is related to the completion of the first pivotal Phase 3 clinical trial and the progress of the confirmatory Phase 3 clinical trial for tesamorelin (TH9507).

### Other Expenses

For the third quarter of 2007, general and administrative expenses, selling and market development expenses, patents and amortization of other assets (SG&A) were \$2,520,000, compared to \$1,459,000 for the same period in 2006. For the nine-month period ended August 31, 2007, the SG&A amounted to \$7,458,000, compared to \$4,735,000 for the same period in 2006. These increases are mainly attributable to the costs associated with business development and pre-commercialization activities, as well as loss on foreign exchange, stock-based compensation, and the overall growth of the Company.

### Realized Gain on Sale of Investments in Public Companies

For the third quarter of 2007, the Company realized a gain of \$383,000 (\$342,000 for the nine-month period ended August 31, 2007) on sale of investments in Sonomed Inc. and Thallion Pharmaceuticals Inc.

### Net Results

Reflecting the variations in revenues and expenses described above, the Company recorded a net third-quarter loss of \$9,781,000, compared to \$7,251,000 for the same period in 2006. For the nine-month period ended August 31, 2007, the loss was \$27,309,000, compared to \$18,919,000 in 2006.

### Quarterly Financial Information

The selected quarterly financial information provided below is derived from the Company's unaudited quarterly financial statements for each of the last eight quarters.

	2007				2006				2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Revenues	\$ 748	\$805	\$ 287	\$ 367	\$ 412	\$ 395	\$ 475	\$ 319	
Operating loss	\$ (10,164)	\$ (8,048)	\$ (9,439)	\$ (6,942)	\$ (7,251)	\$ (6,221)	\$ (5,447)	\$ (5,580)	
Net loss	\$ (9,781)	\$ (8,089)	\$ (9,439)	\$ (6,942)	\$ (7,251)	\$ (6,221)	\$ (5,447)	\$ (5,651)	
Basic and diluted loss per share	\$ (0.18)	\$ (0.15)	\$ (0.20)	\$ (0.15)	\$ (0.16)	\$ (0.14)	\$ (0.15)	\$ (0.16)	

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## **Financial Position**

The Company maintained a sound financial position. At August 31, 2007, liquidities, which includes cash and bonds, amounted to \$69,487,000 and tax credits receivable amounted to \$1,125,000, for a total of \$70,612,000.

During the first quarter, the Company completed a public offering for the sale and issuance of 6,875,000 common shares, including those issued pursuant to the over-allotment option, for a total cash consideration of \$57,750,000. Issue costs totaled \$3,238,000, resulting in net proceeds to the Company of \$54,512,000. For the nine-month period ended August 31 2007, the Company issued 822,200 common shares following the exercise of stock options, for total cash proceeds of \$2,207,000. During the second quarter of 2007, the Company also issued 10,949 common shares to employees for a total cash consideration of \$104,000 in connection with its share purchase plan.

For the three-month period ended August 31, 2007, the burn rate from operating activities, excluding changes in operating assets and liabilities, was \$9,711,000, compared to \$6,865,000 in 2006. For the nine-month period ended August 31, 2007, the burn rate amounted to \$24,740,000, compared to a burn rate of \$17,425,000 in 2006. The increased burn rate in 2007 is the result of the higher R&D expenses described above.

## **Changes in Accounting Policies**

At the beginning of the fiscal year 2007, the Company adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook: Section 1530 entitled "Comprehensive income", Section 3251 entitled "Equity", Section 3855 entitled "Financial instruments – Recognition and measurement", Section 3861 entitled "Financial Instruments – Presentation and Disclosure", and Section 3865 entitled "Hedges". The adoption of these standards had no material impact on the Company's consolidated operating results (see note 2 of the Consolidated Financial Statements).

## **Subsequent Event**

On September 26, 2007, the Company signed a licensing agreement whereby OctoPlus N.V. ("OctoPlus") acquired the exclusive worldwide rights for the development and commercialization of its Glucagon-like Peptide-1 (GLP-1) program, a portfolio of analogues for the treatment of diabetes and other potential indications. OctoPlus' proprietary drug delivery technology in the area of controlled release will be combined with the Company's GLP-1 compounds to produce a product candidate that may reduce the required dosing frequency in diabetes therapy.

The Company received 200,000 OctoPlus stock options upon execution of the agreement. In addition, pursuant to the terms of the agreement, OctoPlus will make milestone payments to Theratechnologies that could amount to as much as €36M (approximately CA\$51M), based on development, clinical phases and commercialization of a product. Royalties on the annual net sales of any products developed and commercialized under the agreement could also be paid to Theratechnologies. OctoPlus will be responsible for all future development costs for the GLP-1 portfolio of compounds.

## **Outstanding Share Data**

Between September 1 and October 8, 2007, 26,500 options were exercised, at an average exercise price of \$4.85 per share, for total cash proceeds of \$128,000. On

October 8, 2007, the number of shares issued and outstanding was 54,510,008, while outstanding options granted under the stock option plan were 2,164,133.

**Contractual Obligations**

Apart from the financings mentioned above, no material changes in contractual obligations occurred during the quarter, other than in the ordinary course of business.

**Economic and Industry Factors**

Economic and industry factors were substantially unchanged from those reported in the Company's 2006 Annual Report.