

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Theratechnologies Inc. as at November 30, 2007 and 2006 and the consolidated statements of earnings, comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Montréal, Canada

January 18, 2008 (except for note 13, which is as of February 13, 2008)

CONSOLIDATED BALANCE SHEETS

NOVEMBER 30, 2007 AND 2006

(in thousands of dollars)	2007	2006
Assets		
Current assets:		
Cash	\$ 2,578	\$ 16
Bonds (notes 2 and 3 C)	27,466	18,023
Accounts receivable	451	289
Tax credits receivable	1,418	1,911
Research supplies	2,110	850
Prepaid expenses	414	391
	34,437	21,480
Bonds (notes 2 and 3 C)	30,324	17,641
Investments in public companies (note 2)	635	836
Property and equipment (note 4)	1,722	1,580
Other assets (note 5)	7,472	9,431
	\$ 74,590	\$ 50,968
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,613	\$ 6,493
Shareholders' equity:		
Capital stock (note 6)	238,842	177,552
Contributed surplus	4,807	3,486
Accumulated other comprehensive loss (note 2)	(333)	-
Deficit	(177,339)	(136,563)
	(177,672)	(136,563)
Total shareholders' equity	65,977	44,475
Commitments (note 9)		
Subsequent event (note 13)		
	\$ 74,590	\$ 50,968

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Paul Pommier
Director



Jean-Denis Talon
Director

CONSOLIDATED STATEMENTS OF EARNINGS

YEARS ENDED NOVEMBER 30, 2007 AND 2006

(in thousands of dollars, except per share amounts)	2007	2006
Revenues:		
Royalties, technologies and other (note 7)	\$ 638	\$ 197
Interest	2,496	1,452
	3,134	1,649
Operating costs and expenses:		
Research and development	31,866	22,049
Tax credits	(1,652)	(954)
	30,214	21,095
General and administrative	7,260	4,886
Selling and market development	2,351	902
Patents and amortization of other assets (note 5)	840	627
	40,665	27,510
Operating loss before undernoted item	(37,531)	(25,861)
Realized loss on disposal of investments in public companies	(57)	-
Net loss	\$ (37,588)	\$ (25,861)
Basic and diluted loss per share (note 6 D)	\$ (0.71)	\$ (0.60)
Weighted average number of common shares outstanding	52,581,559	43,325,197

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

YEARS ENDED NOVEMBER 30, 2007 AND 2006

(in thousands of dollars)	2007	2006
Net loss	\$ (37,588)	\$ (25,861)
Unrealized losses on available-for-sale financial assets	(412)	-
Comprehensive loss	\$ (38,000)	\$ (25,861)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED NOVEMBER 30, 2007 AND 2006

(in thousands of dollars)	Capital stock		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
	Number	Dollars				
Balance, November 30, 2005	35,552,985	\$ 155,659	\$ 2,587	\$ -	\$ (109,240)	\$ 49,006
Issuance of share capital (note 6)	11,222,374	21,893	-	-	-	21,893
Share issue costs	-	-	-	-	(1,462)	(1,462)
Stock-based compensation	-	-	899	-	-	899
Net loss	-	-	-	-	(25,861)	(25,861)
Balance, November 30, 2006	46,775,359	177,552	3,486	-	(136,563)	44,475
Changes in accounting policies (note 2)	-	-	-	79	-	79
Issuance of share capital (note 6)	6,888,074	57,879	-	-	-	57,879
Share issue costs	-	-	-	-	(3,188)	(3,188)
Exercise of stock options:						
Cash proceeds	867,700	2,392	-	-	-	2,392
Ascribed value	-	1,019	(1,019)	-	-	-
Stock-based compensation	-	-	2,340	-	-	2,340
Net loss	-	-	-	-	(37,588)	(37,588)
Unrealized loss on available-for-sale financial assets	-	-	-	(412)	-	(412)
Balance, November 30, 2007	54,531,133	\$ 238,842	\$ 4,807	\$ (333)	\$ (177,339)	\$ 65,977

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED NOVEMBER 30, 2007 AND 2006

(in thousands of dollars)	2007	2006
Cash flows from operating activities:		
Net loss	\$ (37,588)	\$ (25,861)
Adjustments for:		
Depreciation of property and equipment	550	569
Amortization of other assets	562	476
Stock-based compensation	2,340	899
Non-cash revenues (note 7)	(619)	-
Loss on disposal of investments in public companies	57	-
	(34,698)	(23,917)
Changes in operating assets and liabilities:		
Interest receivable on bonds	(364)	342
Accounts receivable	(137)	(106)
Tax credits receivable	493	(933)
Research supplies	368	(513)
Prepaid expenses	(23)	34
Accounts payable and accrued liabilities	1,952	1,974
	2,289	798
	(32,409)	(23,119)
Cash flows from financing activities:		
Share issuance	60,271	21,893
Share issue costs	(3,193)	(1,457)
	57,078	20,436
Cash flows from investing activities:		
Additions to property and equipment	(547)	(175)
Additions to other assets	(228)	(226)
Disposal of other assets	-	80
Acquisition of bonds	(41,496)	(16,082)
Disposal of bonds	19,385	18,015
Disposal of investments in public companies	779	-
	(22,107)	1,612
Net change in cash	2,562	(1,071)
Cash, beginning of year	16	1,087
Cash, end of year	\$ 2,578	\$ 16

See note 12 for supplemental cash flow information.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2007 AND 2006

(in thousands of dollars, except per share amounts)

1. ORGANIZATION AND BUSINESS ACTIVITIES

The Company, incorporated under Part 1A of the Québec Companies Act, discovers or acquires novel therapeutic products for development and commercialization. These products target unmet medical needs in financially attractive specialty markets. The most advanced program is tesamorelin (TH9507), now in a confirmatory Phase 3 clinical trial in HIV-associated lipodystrophy, a serious metabolic syndrome. The Company also has other compounds at earlier stages of development.

2. CHANGES IN ACCOUNTING POLICIES

Effective with the commencement of its 2007 fiscal year, the Company adopted the recommendations of 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 provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

CICA 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 Handbook Section 3855, 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 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 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 accounting 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 they are now measured at fair market value. Previously, these investments were recorded at the lower of cost and fair market value. On December 1, 2006, 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 year ended November 30, 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2007 AND 2006

(in thousands of dollars, except per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES

A. CONSOLIDATION AND INVESTMENTS

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

B. CASH EQUIVALENTS

Cash equivalents are restricted to investments that are readily convertible into cash, having a term to maturity not exceeding three months and whose value is not likely to change significantly. As at November 30, 2007 and 2006, there were no cash equivalents.

C. BONDS

On November 30, 2007, bonds that are classified in current assets based on their maturity date are stated at fair market value. Bonds that are classified in long-term assets are also stated at fair market value. These investments, which are made with institutions having a high credit rating, are readily convertible into cash.

D. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided using the following methods and annual rates:

Asset	Method	Rate/period
Computer equipment	Declining balance	50%
Laboratory equipment	Declining balance and straight-line	20% 5 years
Office equipment and furniture	Declining balance	20%
Leasehold improvements	Straight-line	Term of lease

E. OTHER ASSETS

Other assets consist namely of intellectual property, patent costs and research supplies.

Intellectual property is amortized over a period of 20 years.

Patent costs relate to direct costs incurred in connection with securing the patent and do not necessarily reflect their present or future value and the amount ultimately recoverable is dependent upon the successful commercialization of the related products. Amortization of patent costs is calculated over their estimated useful lives, varying from 5 to 17 years, using the straight-line method.

Research supplies are purchased in advance in accordance with regulatory requirements to be used in connection with the Company's clinical trials. Research supplies that are not expected to be used within one year from the date of the balance sheet are classified as long-term.

F. IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its property and equipment and other long-term assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be used is measured by the comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated from the assets. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying value of the asset exceeds the fair value of the asset. The fair value against which the asset is measured may be established based on comparable information or transactions, or any other method of assessment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. REVENUE RECOGNITION

Revenues from research contracts are recognized when services to be provided are rendered and all conditions under the terms of the underlying agreement are met. Revenues subject to the achievement of milestones are recorded only when the specified events have occurred and collectibility is assured.

Upfront payments and initial technology access fees are deferred and recognized as revenue on a systematic basis over the period during which the related products or services are delivered and all obligations are performed.

License fees are recorded when conditions and events under the license agreement have occurred and collectibility is reasonably assured.

Revenues from a collaboration agreement that includes multiple elements are considered to be a revenue arrangement with multiple deliverables. Under this type of arrangement, the identification of separate units of accounting is required and revenue is allocated among the separate units based on their relative fair values. Payments received under the collaboration agreement may include upfront payments, milestone payments, research contracts, license fees and royalties. Revenues for each unit of accounting are recorded as described above.

Interest income is recognized as earned.

H. RESEARCH AND DEVELOPMENT

Research expenditures, net of related research tax credits and grants, are charged to earnings in the year in which they are incurred. Development expenditures, net of tax credits, if any, are capitalized when they meet the appropriate criteria for capitalization in accordance with generally accepted accounting principles. During the years ended November 30, 2007 and 2006, no development expenditures were capitalized.

I. STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The Company records stock-based compensation related to employee and non-employee stock options granted using the fair value based method estimated using the Black-Scholes model. Under this method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period.

J. GOVERNMENT ASSISTANCE

Government assistance, consisting of research tax credits and grants, is recorded as a reduction of the related expense or cost of the asset acquired. Government grants are recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program. Research tax credits are recorded when there is reasonable assurance that they will be realized.

K. FOREIGN EXCHANGE

Foreign denominated monetary assets and liabilities are translated in Canadian dollars at the rates of exchange prevailing at the balance sheet dates. Other assets and liabilities are translated at the exchange rates prevailing when the assets were acquired or the liabilities incurred. Revenues and expenses are translated at the average exchange rate prevailing during the year, except for depreciation and amortization which are translated at the same rates as those used in the translation of the corresponding assets. Foreign exchange gains and losses are included in the determination of net earnings or net loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2007 AND 2006

(in thousands of dollars, except per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized in the balance sheet to account for the future tax consequences attributable to temporary differences between the respective accounting and taxable value of balance sheet assets and liabilities. As appropriate, a valuation allowance is recognized to decrease the value of tax assets to an amount that is more likely than not to be realized. Future income tax assets and income tax liabilities are measured using income tax rates that are enacted or substantively enacted when the asset is realized or the liability is settled. The effect of changes in income tax rates is recognized in the year during which these rates change.

M. GUARANTEES

In the normal course of business, the Company enters into various agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract (including an indemnity) that contingently requires the Company to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable that is related to an asset, a liability or an equity security of the guaranteed party, (ii) failure of another party to perform under an obligating agreement, or (iii) failure of another party to pay its indebtedness when due.

A liability is recorded when the Company considers probable that a payment relating to a guarantee has to be made to the other party of the contract or agreement, or for financial guarantee contracts that provide for payments to be made in response to changes in an underlying.

N. EARNINGS PER SHARE

The earnings per share are determined using the weighted average number of outstanding shares during the year.

The treasury stock method is used for the computation of the diluted earnings per share. Under this method, a number of additional shares, if they are dilutive, are calculated assuming that the outstanding stock options and warrants are exercised, and that the proceeds from the transactions are used to purchase common shares at the average market price during the period.

O. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include estimating the useful lives of long-lived assets, including property and equipment and other assets, estimating accruals for clinical trial expenses, estimating stock-based compensation and revenue, as well as assessing the recoverability of research tax credits and grants, investments and future income taxes. Reported amounts and note disclosure reflect the overall economic conditions that are most likely to occur and anticipated measures to be taken by management. Actual results could differ from those estimates.

4. PROPERTY AND EQUIPMENT

	2007		
	Cost	Accumulated depreciation and amortization	Net book value
Computer equipment	\$ 645	\$ 415	\$ 230
Laboratory equipment	1,756	1,314	442
Office equipment and furniture	989	624	365
Leasehold improvements	1,840	1,155	685
	\$ 5,230	\$ 3,508	\$ 1,722

	2006		
	Cost	Accumulated depreciation and amortization	Net book value
Computer equipment	\$ 511	\$ 424	\$ 87
Laboratory equipment	1,573	1,168	405
Office equipment and furniture	833	563	270
Leasehold improvements	1,724	906	818
	\$ 4,641	\$ 3,061	\$ 1,580

5. OTHER ASSETS

	2007		
	Cost	Accumulated amortization	Net book value
Intellectual property	\$ 7,670	\$ 2,713	\$ 4,957
Patent costs	1,993	1,052	941
Research supplies	1,524	-	1,524
Other assets	50	-	50
	\$ 11,237	\$ 3,765	\$ 7,472

	2006		
	Cost	Accumulated amortization	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2007 AND 2006

(in thousands of dollars, except per share amounts)

6. CAPITAL STOCK

	2007	2006
Authorized in unlimited number and without par value:		
Common shares		
Preferred shares issuable in one or more series		
Issued:		
54,531,133 common shares (46,775,359 - 2006)	\$ 238,842	\$ 177,552

2007

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 proceeds of \$57,750. The issuance costs amounted to \$3,188.

In 2007, the Company also issued 13,074 common shares to employees for a consideration of \$129, in connection with its share purchase plan.

2006

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 proceeds of \$21,825. Share issue costs amounted to \$1,462.

The Company also issued 29,874 common shares to employees for a consideration of \$68.

All shares were issued for cash consideration.

6. CAPITAL STOCK (CONTINUED)

A. STOCK OPTION PLAN

The Company has established a stock option plan under which it can grant to its directors, officers, employees, researchers and consultants non-transferable options for the purchase of common shares. The exercise date of an option may not be later than 10 years after the date it is granted. A maximum number of 5,000,000 (3,500,000 - 2006) options can be granted under the plan. Generally, the options vest at the date of the grant or over a period of 0 to 5 years. On November 30, 2007, 1,822,667 additional options can be granted by the Company.

Changes in the number of options outstanding during the past two fiscal years were as follows:

	Options	Weighted average exercise price per share
Options as at November 30, 2005	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	2,551,000	4.26
Granted	608,500	9.41
Exercised	(867,700)	2.76
Cancelled	(84,167)	2.80
Options as at November 30, 2007	2,207,633	\$ 6.32

Between December 1, 2007 and January 18, 2008, 32,332 options were exercised at a weighted average price of \$4.19 per share for a cash consideration of \$135.

The following table provides stock option information as at November 30, 2007:

Price range	Options outstanding		Weighted average exercise price	Exercisable options	
	Number of options outstanding	Weighted average remaining life (years)		Number of exercisable options	Weighted average exercise price
\$ 1.20 - \$ 2.00	688,174	8.01	\$ 1.62	348,994	\$ 1.71
2.01 - 2.75	141,459	6.85	2.59	139,791	2.59
2.76 - 3.75	80,000	3.23	3.71	80,000	3.71
3.76 - 4.60	25,000	0.66	4.20	25,000	4.20
4.61 - 6.00	83,500	2.65	5.24	83,500	5.24
6.01 - 9.00	563,000	7.54	8.16	513,000	8.15
9.01 - 13.50	570,000	6.30	10.84	335,000	10.56
13.51 - 15.30	56,500	3.24	15.16	56,500	15.16
	2,207,633	6.79	\$ 6.32	1,581,785	\$ 6.56

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2007 AND 2006

(in thousands of dollars, except per share amounts)

6. CAPITAL STOCK (CONTINUED)

B. STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The estimated 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	4.22%	4.08%
Volatility	68.7%	49.8%
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 years ended November 30, 2007 and 2006:

	Number of options	Weighted average grant-date fair value
2007	608,500	\$ 6.10
2006	840,000	0.88

The Black-Scholes model, used by the Company to calculate option values, as well as other accepted option valuation models, was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values.

C. WARRANTS

During the year ended November 30, 2006, 1,080,000 warrants expired at the exercise price of \$17.30. On November 30, 2007 and 2006, no warrants were outstanding.

6. CAPITAL STOCK (CONTINUED)

D. 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 251,500 (2006 - 1,036,000) options and warrants would not have been considered in such computation since their exercise prices were higher than the average market price during 2007 and 2006.

7. ROYALTIES, TECHNOLOGIES AND OTHER

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 signature of the agreement. In addition, pursuant to the terms of the agreement, OctoPlus will make milestone payments to the Company of up to €36 million (approximately CA\$53 million), based on development, clinical phases and commercialization. Royalties on the annual net sales of any products developed and commercialized under the agreement could also be paid to the Company. OctoPlus will be responsible for all future development costs for GLP-1 portfolio compounds.

As the Company has no service obligations under the agreement, the fair value of \$619 of the options received upon signature of the agreement has been recorded as revenue by the Company. The options have a contractual life of 10 years and are exercisable at the average market price of OctoPlus' shares for the 10 days preceding the date of the agreement. The options granted by OctoPlus have been classified as available-for-sale financial assets and are measured at the fair market value. The estimated fair value of the options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

	November 30, 2007	September 26, 2007
Risk-free interest rate	3.8%	4.29%
Volatility	41.91%	38.75%
Option life in years	9.8	10
Dividend yield	nil	nil

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2007 AND 2006

(in thousands of dollars, except per share amounts)

8. FUTURE INCOME TAXES

Details of the components of income taxes are as follows:

	2007	2006
Net loss before income taxes	\$ (37,588)	\$ (25,861)
Basic income tax rate	32.0%	31.7%
Computed income tax provision	(12,028)	(8,197)
Adjustments to income tax provision resulting from:		
Impact of decrease in federal tax rates:		
Decrease in value of future tax assets	926	-
Change in valuation allowance	(926)	-
Unrecorded potential tax benefit of current year losses and other deductions	10,075	7,891
Non-deductible items and others	1,953	306
	\$ -	\$ -

The tax incidence of temporary differences resulting in significant portions of future income tax assets is as follows:

	2007	2006
Future income tax assets:		
Losses carried forward	\$ 11,434	\$ 7,828
Unused research and development expenses	30,976	25,124
Property and equipment	709	482
Share issue costs	1,127	517
Available deductions and other	10,475	11,554
	54,721	45,505
Future income tax liabilities:		
Intellectual property	(1,333)	(1,266)
	53,388	44,239
Less valuation allowance	(53,388)	(44,239)
Net future income tax asset	\$ -	\$ -

In estimating the realization of future income tax assets, management considers whether a portion or all future tax assets are more likely than not to be realized. Realization of future tax assets is subject to the generation of future taxable income.

8. FUTURE INCOME TAXES (CONTINUED)

As at November 30, 2007, the Company had available the following deductions, losses and credits:

	Federal	Provincial
Research and development expenses, without time limitation	\$ 91,154	\$ 118,589
Losses carried forward, until:		
2009	\$ 5,718	\$ 3,741
2010	10,593	10,447
2014	9,603	8,442
2015	275	153
2027	12,333	12,283
	\$ 38,522	\$ 35,066
Unused tax credits expiring in:		
2008	\$ 611	
2009	446	
2010	737	
2011	1,572	
2012	1,975	
2013	1,570	
2014	1,597	
2015	1,863	
2026	2,178	
2027	4,157	
	\$ 16,706	
	Federal	Provincial
Share issue costs	\$ 3,663	\$ 3,663
Tax value of intellectual property less than carrying value	(4,957)	(4,957)
Excess of tax value of property and equipment over carrying value	2,390	2,242
Other	17,091	17,091

9. COMMITMENTS

A. RENTAL OF PREMISES

The Company rents premises under operating leases expiring in April 2010. The minimum payments required under the terms of the lease are as follows:

2008	\$ 807
2009	816
2010	340
	\$ 1,963

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2007 AND 2006

(in thousands of dollars, except per share amounts)

9. COMMITMENTS (CONTINUED)

A. RENTAL OF PREMISES (CONTINUED)

The Company has issued an irrevocable letter of credit amounting to \$505 (\$561 - 2006), along with a first rank movable mortgage, which can be subordinated with regard to lending institutions, of \$1,150 covering the Company's tangible assets located in the rented premises. This contract comprises progressive reduction clauses with respect to the amount of the letter of credit beginning in 2004 and an option for the purchase of the building and land.

As at November 30, 2007 and 2006, the Company has recorded no liability with respect to these guarantees, as the Company does not expect to make any payments for the aforementioned items. Management has determined that the fair value of the non-contingent obligations requiring performance under the guarantees in the event that specified triggering events or conditions occur approximates the cost of obtaining the standby letters of credit.

B. CREDIT FACILITY

The Company has a credit facility available in the amount of \$1,800, bearing interest at prime plus 0.50% and secured by bonds. Under the credit facility, the market value of investments held should always be equivalent to 150% of advances. If the market value falls below \$7,000, the Company will agree to give the bank a first rank movable hypothec of \$1,850 on securities judged satisfactory by the bank.

As at November 30, 2007 and 2006, with the exception of the letters of credit mentioned in (a) above, the credit facility available to the Company was not utilized.

10. LICENSES

In addition to the exclusively held products, notably tesamorelin and THG213.29, the Company has certain exclusive licenses to market or commercialize intellectual property from research activities performed by certain research institutions. Under these licenses, the Company is committed to pay royalties on the net sales of the products commercialized by the Company, or, if applicable, on the amounts received from sub-license, subject to the application of the clauses of such agreements.

11. FINANCIAL INSTRUMENTS

A. FAIR VALUES, CREDIT AND INTEREST RATE RISK

The Company has determined that the carrying values of its short-term financial assets and liabilities, including cash, accounts receivable, tax credits and grants receivable as well as accounts payable and accrued liabilities, approximate their fair value because of the relatively short periods to maturity of these instruments.

The fair market value of the bonds amounts to \$57,790 as at November 30, 2007 (\$35,467 - 2006). The fair value of investments in public companies amount to \$635 as at November 30, 2007 (\$1,112 - 2006).

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures from resulting in actual loss.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of bonds. The Company has investment policies that ensure the safety and preservation of principal and that ensure the Company's liquidity needs are met.

11. FINANCIAL INSTRUMENTS (CONTINUED)

A. FAIR VALUES, CREDIT AND INTEREST RATE RISK (CONTINUED)

Bonds are comprised of fixed income instruments from municipal and paragonovernmental bodies as well as from companies with a high credit rating (not less than BBB+). The weighted average effective interest rate of the bonds is approximately 4.10%. Long-term bonds mature as follows: \$13,016 in 2009, \$5,352 in 2010, \$8,722 in 2011 and \$3,234 in 2012.

B. FOREIGN CURRENCY

The Company has financial assets and liabilities denominated in foreign currencies. The Company does not use derivative financial instruments to reduce its foreign exchange exposure. General and administrative expenses include a loss on exchange of \$598 for the year ended November 30, 2007 (gain of \$111 in 2006).

12. SUPPLEMENTAL INFORMATION

A. STATEMENT OF CASH FLOWS

The following transactions were conducted by the Company and did not impact cash flows:

	2007	2006
Additions to property and equipment included in accounts payable and accrued liabilities	\$ 147	\$ 2
Additions to other assets included in accounts payable and accrued liabilities	64	36
Share issue costs included in accounts payable and accrued liabilities	-	5

- B. The Company has reclassified in net earnings \$84 of realized losses on available-for-sale financial assets previously recorded in accumulated other comprehensive income. The realized gains include a gain of \$537 on disposal of the investment in Sonomed Inc. (formerly Andromed Inc.). In 2007, the Company received \$628 as a result of the redemption of the Sonomed shares held by the Company. In 2007, the Company also disposed of its remaining shares in Thallion Pharmaceutical Inc. (formerly Ecopia BioSciences Inc.) for \$151 and realized a loss of \$594.
- C. The Company received tax credits of \$2,144 in 2007 (nil - 2006).
- D. The following items were included in the determination of the Company's net loss:

	2007	2006
Depreciation of property and equipment	\$ 550	\$ 569
Amortization of other assets	562	476

13. SUBSEQUENT EVENT

On February 13, 2008, the Company completed a public offering for the sale and issuance of 3,500,000 common shares, for a cash consideration of \$29,750,000. Share issue costs are estimated at \$1,938,000 resulting in net proceeds of \$27,812,000. The Company has also granted the underwriters an over-allotment option for the sale and issue of 350,000 additional shares at an issue price of \$8.50 per share, exercisable for a period of 30 days from closing.