

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides management's point of view on the financial position and the results of operations of Theratechnologies Inc. ("Theratechnologies" or the "Company"), on a consolidated basis for the twelve-month periods ended November 30, 2007 ("2007") and November 30, 2006 ("2006"). This information is dated February 13, 2008 and should be read in conjunction with the Audited Consolidated Financial Statements and the accompanying notes, which have been prepared by management in conformity with Canadian generally accepted accounting principles. Unless otherwise specified, the amounts are in Canadian dollars.

OVERVIEW

Theratechnologies is a Canadian biopharmaceutical company that discovers or acquires innovative drug candidates in order to develop them and bring them to market. The Company targets unmet medical needs in financially attractive specialty markets. Its most advanced program is tesamorelin, which is now in a confirmatory Phase 3 clinical trial in HIV-associated lipodystrophy, a serious metabolic disorder. The Company also has other projects at earlier stages of development.

Throughout 2007, the Company's activities centered on the continued Phase 3 development program for tesamorelin in HIV-associated lipodystrophy. Positive top-line, 26-week, efficacy and safety results for the first of two Phase 3 clinical studies were announced in December 2006 and the confirmatory Phase 3 study was launched in January 2007. The recruitment phase of the confirmatory study proceeded well and was completed in September 2007. The latest study is being carried out with approximately 400 patients in North America and Europe and is intended to confirm the results of the first Phase 3 study. Top-line, 26-week data from the confirmatory study should be available in the second quarter of 2008. Another important aspect of the clinical program in 2007 was the release of further positive data from the first Phase 3 study. These additional data, which provided more detail on the efficacy and long-term (52-week) safety of tesamorelin, were disclosed at important scientific conferences over the course of the year.

On the regulatory front, Theratechnologies was very active in 2007, securing approvals in various jurisdictions for its clinical trials. In the United States, reassuring comments were received from the Food and Drug Administration (FDA) in September 2007 about the Company's tesamorelin Phase 3 program. The regulatory staff is now preparing a New Drug Application (NDA) aimed at an approval to market tesamorelin in the United States. The goal is to complete the NDA submission by the end of 2008.

In accordance with the Company's plan, preparatory work for the eventual commercialization of tesamorelin is underway and will intensify in 2008. This work includes negotiations with potential suppliers and commercial partners.

The activities aimed at diversifying and enriching the Company's longer-term product pipeline are ongoing and will continue in 2008. With respect to new products, the principal in-house projects are the evaluation of possible additional indications for tesamorelin and of the Company's early-stage program in acute renal failure. The Company's Glucagon-like Peptide-1 (GLP-1) program, which was suspended in 2005 for strategic reasons, was out-licensed in 2007 in consideration for stock options in the licensee and future milestone payments.

In 2007, Theratechnologies recovered rights for tesamorelin in Japan that were previously granted to Sakai Chemical Industry Co. Ltd. Under the terms of the agreement, Theratechnologies regained these rights and no additional consideration was disbursed. The Company believes that the worldwide rights for tesamorelin provide strategic value to the Company.

Theratechnologies has followed an approach that relies almost exclusively on the issuance of common equity to fund its activities. In 2007, the Company's financial position was considerably strengthened by the successful completion of a \$58 million equity offering in February 2007.

RECENT DEVELOPMENTS

The Company began to focus its efforts on the transition from late-stage development to commercialization of tesamorelin during the second half of 2007. This involved examining various options including the development of an internal sales force or entering into a standard out-licensing, co-promotion or commercial partnership agreement. The Company retained L.E.K. Consulting Inc. and BMO Nesbitt Burns Inc. ("BMO Capital Markets") to advise it regarding the commercialization process and the issues involved as well as to provide an overview of other avenues available to the Company. The board of directors also formed a committee of independent directors (the "Strategic Review Committee"), consisting of Messrs. Gilles Cloutier, A. Jean de Grandpré, Gérald A. Lacoste and Paul Pommier (Chairman) to assist it in considering the Company's options and to assist management in strategizing in connection with the transition to the Company's next phase. During the following months, the Strategic Review Committee and the Board of Directors, with the assistance of BMO Capital Markets, assessed whether the Company should engage in a formal review of strategic options to enhance shareholder value and the implications of entering into co-promotion or partnership agreements, pursuing business acquisitions, or seeking a sale of the Company.

On January 28, 2008, the Board of Directors met and concluded, with the advice of the Strategic Review Committee, that the Company should engage in a formal review of strategic alternatives to enhance shareholder value (the "Review Process"). The Board engaged BMO Capital Markets and Lazard Frères & Co. LLC to act as financial advisors in connection with the Review Process. In arriving at such decisions, it was emphasized that the Company's strategy to develop and commercialize tesamorelin is proceeding as scheduled and that the Company's current plan and outlook are expected to provide attractive returns for shareholders. Nevertheless, to determine whether any strategic interest on the part of buyers, merger candidates or potential partners might result in superior value, the Board authorized the Company to explore broadly whether third parties have any interest in a transaction with the Company.

Finally, in order for the Company to adequately finance the continuing development of tesamorelin and the ongoing preparations for commercialization, as well as to ensure that the Company maintains the necessary flexibility to consider all potential alternatives that may arise as a result of the Review Process, the Company completed, on February 13, 2008, a public offering for the sale and issuance of 3,500,000 common shares, for a total cash consideration of \$29,750,000. Share issue costs are estimated to be \$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. On a pro forma basis, the Company's liquidities and tax credits receivable as at November 30, 2007 would have amounted to \$89,598,000.

SELECTED ANNUAL INFORMATION

CONSOLIDATED STATEMENT OF EARNINGS

YEARS ENDED NOVEMBER 30

(in thousands of Canadian dollars, except per share amounts)	2007	2006	2005
Revenues	\$ 3,134	\$ 1,649	\$ 16,461
Research and development before tax credits	\$ 31,866	\$ 22,049	\$ 14,987
Operating loss before loss on investments	\$ (37,531)	\$ (25,861)	\$ (5,011)
Loss on investments in companies	\$ (57)	\$ –	\$ (2,659)
Net loss	\$ (37,588)	\$ (25,861)	\$ (14,343)
Basic and diluted loss per share	\$ (0.71)	\$ (0.60)	\$ (0.40)

CONSOLIDATED BALANCE SHEET

AT NOVEMBER 30

(in thousands of Canadian dollars)	2007	2006	2005
Liquidities (cash and bonds)	\$ 60,368	\$ 35,680	\$ 39,026
Tax credits receivable	\$ 1,418	\$ 1,911	\$ 978
Investments in public companies	\$ 635	\$ 836	\$ 836
Total assets	\$ 74,590	\$ 50,968	\$ 53,645
Capital stock	\$ 238,842	\$ 177,552	\$ 155,659
Shareholders' equity	\$ 65,977	\$ 44,475	\$ 49,006

OPERATING RESULTS

REVENUES

The technologies' consolidated revenues for the year ended November 30, 2007 were \$3,134,000 compared to \$1,649,000 in 2006. The 2007 revenues include \$619,000 received as an upfront payment in the form of stock options from OctoPlus N.V. ("OctoPlus"), a Dutch company, in return for the Company's worldwide rights to the development and commercialization of its GLP-1 program. The Company has no other service obligations under the agreement and may receive further milestone payments of up to €36 million (approximately CA\$53 million) based on development, clinical phases and commercialization, as well as royalty payments on future sales of products developed and commercialized under the agreement. The OctoPlus stock options were valued using the Black-Scholes pricing model. Most of the remaining revenues for 2007, and substantially all of the revenues for 2006, were derived from interest on investments. Interest revenue was higher in 2007 due to an increase in funds invested following a public offering of common shares completed in February 2007 with net proceeds to the Company of \$54,562,000.

R&D ACTIVITIES

Consolidated research and development (R&D) expenditures, before tax credits, totaled \$31,866,000 for the year ended November 30, 2007, compared to \$22,049,000 in 2006. The increase in R&D expenditures for 2007 reflects the level of activity with respect to the simultaneous conduct of the Company's two Phase 3 pivotal studies.

The Company anticipates announcing results of the Phase 3 confirmatory study (results after 26 weeks) during the course of the second quarter of 2008. The direct costs related to the second confirmatory Phase 3 clinical study are estimated to be between \$7 and \$9 million. The Company is also carrying out an extension phase to its confirmatory Phase 3 clinical study. The direct costs related to this extension phase are estimated to be between \$11 and \$13 million.

Once the Phase 3 clinical program is completed, the Company expects to submit a NDA for tesamorelin in the United States by the end of 2008.

TAX CREDITS

Tax credits amounted to \$1,652,000 for the year ended November 30, 2007, compared to \$954,000 in 2006. Tax credits represent refundable tax credits obtained from the Québec Government. An amount of \$400,000 of the increase relates to modifications made by the Québec Government to the tax credit program in December 2006. The increase in R&D expenditures in 2007 also contributed to the increase in tax credits receivable.

OTHER EXPENSES

For the year ended November 30, 2007, general and administrative expenses, patents and amortization of other assets ("G&A") were \$8,100,000 compared to \$5,513,000 in 2006. The increase in 2007 is attributable to higher stock-based compensation related to a special grant of stock options in January 2007 to all employees (\$1,035,000 compared to \$713,000 in 2006). This stock-based compensation had no impact on the Company's liquidities. Secondly, the Company incurred a foreign exchange loss of \$598,000 in 2007 compared to a gain of \$111,000 in 2006. Finally, the increase in these costs is also associated with the growth and development of the Company.

Selling and market development expenses were \$2,351,000, compared to \$902,000 in 2006. This increase reflects the activities associated with pre-commercialization.

NET RESULTS

Reflecting the variations in revenues and expenses described above, the Company recorded a 2007 net loss of \$37,588,000, or \$0.71 per share, compared to a loss of \$25,861,000, or \$0.60 per share, in 2006.

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.

	(in thousands of Canadian dollars, except per share amounts)							
	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$ 1,294	\$ 748	\$ 805	\$ 287	\$ 367	\$ 412	\$ 395	\$ 475
Net loss	\$(10,279)	\$ (9,781)	\$ (8,089)	\$ (9,439)	\$ (6,942)	\$ (7,251)	\$ (6,221)	\$ (5,447)
Basic and diluted loss per share	\$ (0.19)	\$ (0.18)	\$ (0.15)	\$ (0.20)	\$ (0.15)	\$ (0.16)	\$ (0.14)	\$ (0.15)

The increase in revenues in 2007 results primarily from higher liquidities in 2007, which are higher than those in 2006 as a result of the financing in February 2007. Revenues for the fourth quarter include an amount of \$619,000 received in the form of stock options as an upfront payment for the granting of the worldwide rights for the development and commercialization of the GLP-1 program to OctoPlus.

FOURTH QUARTER

Theratechnologies' consolidated revenues for the three-month period ended November 30, 2007 were \$1,294,000 compared to \$367,000 in 2006. The increase in revenues in the fourth quarter of 2007 results from higher liquidities compared to 2006 associated with the financing in February 2007. Revenue of \$619,000 related to the license granted to OctoPlus, previously described, also explains this increase.

Consolidated R&D expenditures, before tax credits, for the fourth quarter of 2007 totaled \$8,475,000, compared to \$5,963,000 in 2006. The increase in R&D expenditures for 2007 reflects the level of activity with respect to the simultaneous conduct of the Company's two pivotal studies.

General and administrative expenses, patents and amortization of other assets for the fourth quarter of 2007 were \$2,304,000 compared to \$1,467,000 for the same period in 2006. This increase in expenses in 2007 results from a loss of \$159,000 on foreign exchange in 2007 compared to a gain of \$1,000 in 2006. The increase in these expenses is also due to higher costs associated with the overall growth and development of the Company. Selling and market development expenses increased by \$476,000, and reflect the costs associated with pre-commercialization activities.

Consequently, the Company recorded a net loss of \$10,279,000 or \$0.19 per share for the fourth quarter ended November 30, 2007, compared to a net loss of \$6,942,000 or \$0.15 per share in 2006.

For the three-month period ended November 30, 2007, the burn rate relating to operating activities, excluding changes in operating assets and liabilities, was \$9,958,000, compared to \$6,492,000 in 2006, reflecting the higher expenses described previously.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal capital needs consist of financing its research and development activities, general and administrative expenses, working capital and capital expenditures. Since inception, the Company has financed these needs primarily through public offerings of common shares, private placements, investment tax credits, grants, interest income as well as proceeds and royalties from technologies.

For the year ended November 30, 2007, the burn rate, represented by cash flows from operating activities and excluding changes in operating assets and liabilities, was \$34,698,000 compared to \$23,917,000 in 2006. The increase in the burn rate in 2007 reflects the planned increase in activities related to the Phase 3 program, including activities associated with the pre-commercialization of tesamorelin. The monthly average burn rate for 2008 should be between \$3,500,000 and \$3,800,000, reflecting the level of activity surrounding the finalization of the Phase 3 program and the submission of a NDA for tesamorelin in 2008, as well as related pre-commercialization activities.

Despite the increase in the burn rate in 2007, Theratechnologies maintained an adequate liquidity position in 2007. At November 30, 2007, cash and bonds amounted to \$60,368,000 and tax credits receivable amounted to \$1,418,000, for a total of \$61,786,000.

The Company has a line of credit of \$1,800,000 for its short-term financing needs. As at November 30, 2007, this line of credit had not been used, however \$505,000 of this amount was allocated to secure an irrevocable letter of credit related to lease commitments.

The Company invests its available cash in fixed income instruments from governmental, paragonovernmental and municipal bodies as well as from companies with high credit ratings, which can readily be converted into cash. These instruments are selected with regard to the expected timing of expenditures and prevailing interest rates.

During the first quarter of 2007, the Company completed a public offering for the sale and issuance of 6,875,000 common shares, including those issued pursuant to the exercise of the over-allotment option, for a total cash consideration of \$57,750,000. Issue costs totaled \$3,188,000, resulting in net proceeds to the Company of \$54,562,000.

In the year ended November 30, 2007, the Company issued 867,700 common shares following the exercise of stock options, for total cash proceeds of \$2,392,000. During 2007, the Company also issued 13,074 common shares to employees for a total cash consideration of \$129,000 in connection with its share purchase plan.

In March 2006, Theratechnologies issued 11,192,500 common shares through a public offering for cash proceeds of \$21,825,000, including cash received from the exercise of the over-allotment option. Also in 2006, the Company issued 29,874 common shares to employees for a total cash consideration of \$68,000.

During the year ended November 30, 2007, the Company sold the balance of its common shares in Thallion Pharmaceuticals Inc. (formerly Ecopia BioSciences Inc.). The Company also exchanged its shares in Sonomed Inc. (formerly Andromed Inc.) for shares of SND Energy Ltd. pursuant to an arrangement between Sonomed Inc. and SND Energy Ltd. The principal objective of the plan was to distribute the quasi-totality of Sonomed's assets to its shareholders. During the course of fiscal 2007, the Company received an amount of \$779,000 related to these transactions.

Reflecting the financing of February 2008, (see "Overview-Recent Developments"), the Company believes that its cash position will be sufficient to finance its operations and capital needs for at least two years. However, to support its operations on a long-term basis, the Company may need to undertake additional financing activities.

CONTRACTUAL OBLIGATIONS

As at November 30, 2007, the Company's commitments are principally obligations under an operating lease related to its premises (refer to note 9 of the Consolidated Financial Statements). Required payments under the operating lease agreement are presented below.

PAYMENTS REQUIRED BY DUE DATE

(in thousands of Canadian dollars)	Total	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
Operating lease	\$ 1,963	\$ 807	\$ 1,156	\$ –	\$ –

OFF-BALANCE SHEET AGREEMENTS

The Company was not involved in any off-balance sheet arrangements as at November 30, 2007, with the exception of an irrevocable letter of credit issued in the amount of \$505,000 related to lease commitments.

SUBSEQUENT EVENTS

See "Overview-Recent Developments".

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions 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. A change in the facts and circumstances of the underlying transaction could significantly change the application of the accounting policies and the resulting financial statement impact. Discussed below are those policies that are judged to be critical and require the use of complex judgment in their application.

PROPERTY AND EQUIPMENT AND OTHER ASSETS

Property and equipment and other assets are stated at cost. Depreciation and amortization are provided using methods and annual rates which are expected to reflect their economic and useful life. On a regular basis, the Company reviews the estimated useful lives of its property and equipment. Assessing the reasonableness of the estimated useful lives of property and equipment requires judgement and is based on currently available information.

IMPAIRMENT OF LONG-TERM ASSETS

The Company reviews its property and equipment and other 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. Management's judgment regarding the existence of impairment indicators is based on legal factors, market conditions and operating performance. The fair value against which the asset is measured may be established based on comparable information or transactions, discounted cash flows or other methods of assessment depending on the nature of the asset. In estimating future cash flows, the Company uses its best estimates based on internal plans. Changes in circumstances, such as technological advances and changes to our business strategy can result in actual useful lives and future cash flows differing significantly from our estimates. Revisions to the estimated useful lives of property and equipment or future cash flows constitute a change in accounting estimates and are applied prospectively.

INCOME TAXES

Income taxes are accounted for using the asset and liability method. 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. Future income tax assets and income tax liabilities are measured using the income tax rates that are expected to apply 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. 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. In estimating the realization of future income tax assets, management considers whether a portion or all future tax assets is more likely than not to be realized. Realization is subject to future taxable income. As at November 30, 2007, the Company determined that a tax valuation allowance for the full amount of future tax assets was necessary. In the event the Company was to determine that it would be able to realize its tax asset, an adjustment to the tax asset would increase income in the period in which such determination is made.

RESEARCH AND DEVELOPMENT

Research and development expenditures consist of direct and indirect expenses. They are expensed as they are incurred. The Company accounts for clinical trial expenses on the basis of work completed which relies on estimates of total costs incurred based on completion of patient studies, on the number of patients and other factors. The expenses that are recorded with respect to clinical trials are reviewed as the trial advances up until its final phase.

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The Company accounts for employee and non-employee stock options using the fair value based method estimated using the Black-Scholes model, which requires the use of certain assumptions, including future stock price volatility and the time interval until the options are exercised. Any change to these assumptions could lead to a variation of the fair value of the stock-based compensation, which could have a material impact on the Company's results. Under this method, compensation cost is measured at fair value at the date of grant and is expensed over the vesting period.

GOVERNMENT ASSISTANCE

Government assistance consists of research tax credits and grants and is applied against related expenses and the cost of the asset acquired. Tax credits are available based on eligible research and development expenses consisting of direct and indirect expenditures and including a reasonable allocation of overhead expenses. Grants are subject to compliance with terms and conditions of the related agreements. Government assistance is recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program or, with regard to tax credits, when there is reasonable assurance that they will be realized.

CHANGES IN ACCOUNTING POLICIES

Effective with the commencement of its 2007 fiscal year, the Company adopted 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 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 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 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 \$79,000 of these changes in accounting policies is included in the opening balance of accumulated other comprehensive income.

The adoption of the standards of Sections 3251, 3861 and 3855 has no impact on the financial statements for the year ended November 30, 2007.

RECENT ACCOUNTING PRONOUNCEMENTS

CAPITAL DISCLOSURES

In December 2006, the CICA issued Section 1535, *Capital Disclosures*. This Section established standards for disclosing information about an entity's capital and how it is managed. This Section is effective for fiscal periods beginning on or after October 1, 2007. This new standard relates to disclosure only and will not impact our financial results.

FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

In December 2006, the CICA issued Section 3862, *Financial Instruments – Disclosure*, and Section 3863, *Financial Instruments – Presentation*. These Sections are effective for fiscal periods beginning on or after October 1, 2007. These sections replace existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognitions and Measurement*. These new standards relate to disclosure and presentation only and will not impact our financial results.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2005 the Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are to converge with International Financial Reporting Standards (IFRS). In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating IFRS into Canadian GAAP". This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting standards with IFRS. It is anticipated that the decision on the changeover date from current Canadian GAAP to IFRS will be made by the CICA by March 31, 2008. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. We are currently assessing the future impact of these new standards on our consolidated financial statements.

FINANCIAL INSTRUMENTS

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 bonds amounts to \$57,790,000 as at November 30, 2007 (\$35,467,000 in 2006). The fair value of investments in public companies amounts to \$635,000 as at November 30, 2007 (\$1,112,000 in 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.

The Company has financial assets and liabilities denominated in foreign currency. The Company does not use derivative financial instruments to reduce its foreign exchange exposure. General and administrative expenses include a loss on exchange of \$598,000 for the year ended November 30, 2007 (gain of \$111,000 in 2006).

OUTSTANDING SHARE DATA

Between December 1, 2007 and February 13, 2008, 68,332 options were exercised at a weighted average price of \$3.53 per share for a cash consideration of \$241,533. The Company also granted 81,000 options to its employees at a weighted average price of \$8.63. At February 13, 2008, the number of shares issued and outstanding was 58,099,465 common shares, while outstanding options granted under the stock option plan were 2,220,301.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for establishing and maintaining controls and procedures regarding the communication of information about the Company, as well as internal controls over its financial reporting. As required by securities legislation, the Chief Executive Officer and Chief Financial Officer have conducted an evaluation of the controls and procedures regarding communication of information and have concluded that these controls and procedures are effective. In addition, the Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or for causing it to be designed under their supervision. During the 2006 fiscal year, they had all existing systems documented and have corrected inadequacies, as the case may be. That documentation has been updated in 2007.

RISKS AND UNCERTAINTIES

The commercial success of the Company depends largely on the development and commercialization of tesamorelin; the failure by the Company to commercialize tesamorelin will have a material adverse effect on the Company.

The Company's focus has been to advance the development of tesamorelin in which it has invested a significant portion of its financial resources and time. Although the Company has other analogues and peptides, all are at an earlier stage of development.

The ability of the Company to generate revenues in the future is primarily based on the commercialization of tesamorelin for the treatment of HIV-associated lipodystrophy. There can be no guarantee that tesamorelin will be commercialized since it is still under development and the Company is conducting clinical trials to further assess its safety and efficacy. Also, there can be no guarantee that the results of the ongoing clinical trials will yield positive results. Even if positive results are derived from such clinical trials, the commercialization of tesamorelin for the treatment of HIV-associated lipodystrophy will depend on several factors:

- timely receipt of regulatory approvals from the FDA and other regulatory agencies;
- market acceptance of the product by the medical community, patients and third-party payers (such as governmental health administration authorities and private health coverage insurers);
- building a marketing and sales force or entering into a commercial agreement with a partner to help the marketing and sale of tesamorelin for the treatment of HIV-associated lipodystrophy;
- maintaining manufacturing and supply agreements to ensure commercial quantities of tesamorelin through validated processes;
- a change in the number of competitors in the market; and
- protecting the Company's intellectual property and avoiding patent infringement.

The Company's inability to commercialize tesamorelin for the treatment of HIV-associated lipodystrophy in the short term will delay its capacity to generate revenues and will adversely materially affect its financial conditions and operating results.

The Company does not have the required regulatory approval to commercialize its products and cannot guarantee that it will obtain such regulatory approval.

The commercialization of the Company's products first requires the approval of the regulatory agencies in each of the countries where it intends to sell its products. In order to obtain the required approvals, the Company must demonstrate, following preclinical and clinical studies, the safety, efficacy and quality of a product. As far as tesamorelin is concerned, the first market the Company wishes to penetrate for the treatment of HIV-associated lipodystrophy is the United States where the rules and regulations relating to the approval of a new drug are complex and stringent. There can be no guarantee that the Company will succeed in obtaining regulatory approval from the FDA and the regulatory approvals of agencies in other countries to sell its tesamorelin for the treatment of HIV-associated lipodystrophy.

All of the analogues and peptides of the Company, including tesamorelin, are still subject to clinical studies and if the results of such studies are not positive, the Company may not be in a position to make any filing to obtain the mandatory regulatory approval or it may have to perform additional clinical studies on any of its products until the results support the safety and efficacy of such product, therefore incurring additional delays and costs.

The filing of an NDA is complex and the Company has never made any filings in order to obtain the regulatory approval of a product. Therefore, the Company must rely in part on third-party suppliers to help it perform this task.

Furthermore, the obtaining of regulatory approval is subject to the discretion of regulatory agencies. Therefore, even if the Company has obtained positive results relating to the safety and efficacy of a product, a regulatory agency may not accept such results as being conclusive and allow the Company to sell its products in its country. A regulatory agency may require that additional tests on the safety and efficacy of a product be conducted prior to granting approval, if any. Although the Company received a Special Protocol Assessment ("SPA") from the FDA and the Company has followed it, there can be no guarantee that the FDA will approve tesamorelin for the treatment of HIV-associated lipodystrophy. Even if the FDA approves tesamorelin, there can be no guarantee that other regulatory agencies will approve tesamorelin for the treatment of HIV-associated lipodystrophy in their respective countries.

Even if the Company obtains regulatory approval for any of its products, regulatory agencies have the power to limit the indicated use of a product. Also, the manufacture, marketing and sale of the products will be subject to ongoing and extensive governmental regulation in the country in which the Company intends to market its products. For instance, if the Company obtains marketing approval for its tesamorelin in the United States, the marketing of tesamorelin will be subject to extensive regulatory requirements administered by the FDA and other regulatory bodies, such as adverse event reporting requirements in compliance with all of the FDA's marketing and promotional requirements. The manufacturing facilities for the Company's tesamorelin will also be subject to continual review and periodic inspection and approval of manufacturing modifications. Manufacturing facilities are subject to inspections by the FDA and must comply with the FDA's Good Manufacturing Practices ("GMP") regulations. Failure to comply with any of these post-approval requirements can result in a series of sanctions, including withdrawal of the right to market a product.

The Company's financial condition could be affected by the introduction of new regulations or amendments to existing regulations.

New legislation or changes to existing legislation affecting the Company and its potential customers could decrease demand for the Company's products and affect its results of operation and financial condition. For example, the implementation of health care reform legislation that regulates drug costs could limit the profits that could be made from the development of new drugs. In addition, new laws or regulations could increase the Company's costs.

The Company must complete several preclinical and clinical studies for its products which may not yield positive results and, consequently, could prevent it from obtaining regulatory approval.

Obtaining regulatory approval for the commercialization of drug products requires demonstration through preclinical and clinical studies that the drug is safe and effective. All of the Company's molecules are in preclinical studies, except tesamorelin for the treatment of HIV-associated lipodystrophy that is in Phase 3 clinical studies. Although the clinical studies for tesamorelin are near completion for the purposes of submitting an NDA to the FDA, there can be no assurance that the results obtained in the past will be as positive as those expected for the remaining clinical studies. If the remaining clinical studies on tesamorelin do not yield positive results, the submission of an NDA to the FDA will be delayed and the development and commercialization of tesamorelin for the proposed indication could be jeopardized. A delay in submitting an NDA to the FDA could adversely materially impact the capacity of the Company to generate revenues, its financial condition and results of operation.

Human clinical trials may result in adverse patient reactions, which may require a cessation or extension of the trials, an increase in the number of patients enrolled in a given trial or the need to undertake ancillary testing and human trials.

All of the other molecules are in early development stages and there remains preclinical and clinical studies to be conducted prior to determining whether such molecules will show positive results of safety and efficacy. If any of those studies are not positively conclusive, the development of such products could be cancelled and their commercialization abandoned. In addition, the growth of the Company could be compromised since there can be no guarantee that the Company would be able to develop new molecules, or license or purchase compounds or products that will result in marketed products.

The Company relies on third party suppliers of services to conduct its preclinical and clinical studies and the failure by such third parties to comply with their obligations may delay the studies and/or have an adverse effect on the Company's development program.

The Company has limited resources to conduct preclinical and clinical studies and must rely on third-party suppliers of services to conduct its studies. If the Company's third-party suppliers of services become unavailable for any reason, including as a result of the failure to comply with the rules and regulations governing the conduct of preclinical and clinical studies, operational failures, such as equipment failures or unplanned facility shutdowns, damage from any event, including fire, flood, earthquake, business restructuring or insolvency, or if they fail to perform their contractual obligations pursuant to the terms of the agreements entered into with the Company, such as failing to do the testing, compute the data or complete the reports further to the testings, the Company may incur delays in connection with the planned timing of its studies which could adversely affect the timing of the development program of a molecule or delay the filing of an NDA. If the damage to any of the Company's third-party suppliers of services is extensive or if, for any reason, such suppliers do not operate in compliance with Good Clinical Practices ("GCP") or are unable or refuse to perform their contractual obligations, the Company will need to find alternative third-party suppliers of services.

If the Company must change or select new third-party suppliers of services, the timing of the work related to preclinical and/or clinical studies could be delayed since the number of competent and reliable third-party suppliers to conduct preclinical and clinical work in compliance with Good Laboratory Practices ("GLP") is limited. Any selection of new third-party suppliers to carry out work related to preclinical and clinical studies will be time-consuming and will result in additional delays in receiving data, analysis and reports from such third-party suppliers which, in turn, will delay the obtaining of regulatory approval to commercialize the Company's products. Furthermore, such delays could increase the Company's expenditures to develop a product and materially adversely affect its operating results and financial condition.

The conduct of clinical trials requires the enrolment of patients and difficulties in enrolling patients will delay the conduct of the Company's clinical trials or result in non-completion of them.

Although patient enrolment for the Company's confirmatory Phase 3 clinical studies of tesamorelin in HIV-associated lipodystrophy is completed, generally the conduct of clinical trials by the Company requires the enrolment of patients. Depending on the phase of the trials and/or the type of trials that must be conducted, the number of patients may vary. Phase 1 and Phase 2 trials generally require a smaller number of patients than Phase 3 trials.

The Company may have difficulties enrolling patients for the conduct of its clinical trials as a result of design protocol, the size of the patient population, the eligibility criteria to participate in the clinical trials, the availability of competing therapies, the patient referral practices of physicians and the availability of clinical trial sites. The Company's difficulty in enrolling patients for its clinical trials may result in the cancellation of its planned clinical trials, delays in completing them or termination of ongoing clinical trials. Any of these events will have adverse consequences on the timely development of new products, the filing of an NDA or other application with the regulatory authorities and the commercialization of the products. Such events may adversely affect the business, the financial condition and the operating results of the Company.

Market acceptance of the Company's products is uncertain and depends on a variety of factors, some of which are not under the control of the Company.

The Company's ability to commercialize its products with success will depend on a variety of factors. One of these is the extent to which reimbursement to patients for the cost of such products and related treatment will be available from governmental health administration authorities, private health coverage insurers and other organizations. Obtaining reimbursement approval for a product is time-consuming and a costly process that could require the Company to provide supporting scientific, clinical and cost effectiveness data for the use of a product. There can be no guarantee the Company's data will be positive enough for third-party payers to accept to reimburse a Company product.

The Company has never made any application to seek reimbursement of a drug and must, therefore, rely in part on third-party suppliers of services to help it perform this task.

Other factors that will have an impact on the acceptance of the Company's products include:

- acceptance of the products by physicians and patients as safe and effective treatments;
- product price;
- the effectiveness of the Company's sales and marketing efforts (or those of its commercial partner);
- storage requirements and ease of administration;
- dosing regimen;
- safety and efficacy;
- prevalence and severity of side effects; and
- competitive products.

The Company's capacity to generate revenues may be limited by governmental control over the pricing of prescription drugs.

In some countries, particularly the member states of the European Union, the pricing of prescription drugs is subject to governmental control. In some of these countries, pricing negotiations with governmental authorities and reimbursement structures may delay the marketing of a product. If reimbursement of the Company's products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, the revenues of the Company could be adversely affected.

The Company relies on third parties for the manufacture and supply of its tesamorelin and such reliance may adversely affect the Company if the third parties are unable to fulfill their obligations.

The Company does not have the resources, facilities or experience to manufacture its products in large quantities on its own. The Company relies on third parties to manufacture and supply its tesamorelin for clinical studies and, unless the Company deems the manufacture of this peptide feasible and profitable if tesamorelin is approved for commercialization, it will continue to rely on third parties for some time to manufacture and supply large quantities of tesamorelin for commercial sales.

The Company's reliance on third-party manufacturers will expose it to a number of risks. If third-party manufacturers become unavailable to the Company for any reason, including as a result of the failure to comply with GMP regulations, manufacturing problems or other operational failures, such as equipment failures or unplanned facility shutdowns required to comply with GMP, damage from any event, including fire, flood, earthquake, business restructuring or insolvency, or if they fail to perform their contractual obligations under agreements with the Company, such as failing to deliver the quantities requested on a timely basis, the Company may be delayed in manufacturing tesamorelin or any other peptide and, in the case of tesamorelin, could be unable to meet the regulatory requirements of the FDA or other regulatory agencies to obtain market approval for its tesamorelin. Any such event could delay the supply of a product to conduct clinical trials and, if a product has reached commercialization, could prevent the supply of the product and adversely affect the revenues of the Company. If the damage to a third-party manufacturer facility is extensive, or, for any reason, it does not operate in compliance with GMP or is unable or refuses to perform its obligations under its agreement with the Company, the Company will need to find an alternative third-party manufacturer. The selection of a third-party manufacturer will be time-consuming and costly since the Company will need to validate the manufacturing facility of such new third-party manufacturer. The validation will include an assessment of the capacity of such third-party manufacturer to produce the quantities that may be requested from time to time by the Company, the manufacturing process and its compliance with GMP. In addition, the third-party manufacturer will have to familiarize itself with the Company's technology. Any delay in finding an alternative third-party manufacturer of a product could result in a shortage of such product, delay clinical study programs and the filing for regulatory approval of a product, and deprive the Company of potential product revenues.

The Company must build its own sales force or enter into a commercial agreement with a third party for the sale and marketing of its products and there is no guarantee that the Company will be able to achieve one of these tasks.

The Company currently has limited marketing capabilities and no sales force. In addition, the Company has limited experience in developing, training or managing a marketing or sales force. In order to commercialize its products, the Company must either develop its own sales force or enter into a commercial agreement with a third party. The development of a sales force is costly and will be time-consuming given the limited experience the Company has in that respect. To the extent the Company develops a sales force, the Company will be competing against companies who have more experience managing a sales force than the Company and access to more funds than the Company with which to manage a sales force. Consequently, there can be no guarantee that the sales force that the Company would develop would be efficient and would maximize the revenues derived from the sale of the Company's products.

Finding a third party for the sale and commercialization of a product is a lengthy process which includes the assessment of the services to be performed by the third party, a due diligence on the Company's products and the negotiation of the terms and conditions of a commercial agreement. The outcome of this process is uncertain and the Company may not be able to conclude a commercial agreement. If such an event occurs, the Company could have to delay the launch of its products which could adversely materially affect the financial conditions and the operating results of the Company.

The failure by the Company to protect its intellectual property may have a material adverse effect on its ability to develop and commercialize its products.

The Company will be able to protect its intellectual property rights from unauthorized use by third parties only to the extent that its intellectual property rights are covered by valid and enforceable patents or are effectively maintained as trade secrets. The Company tries to protect its intellectual property position by filing patent applications related to its proprietary technology, inventions and improvements that are important to the development of its business. Because the patent position of pharmaceutical companies involves complex legal and factual questions, the issuance, scope and enforceability of patents cannot be predicted with certainty. Patents, if issued, may be challenged, invalidated or circumvented. If the Company's patents are invalidated or found to be unenforceable, it will lose the ability to exclude others from making, using or selling the inventions claimed. Moreover, an issued patent does not guarantee the Company the right to use the patented technology or commercialize a product using that technology. Third parties may have blocking patents that could be used to prevent the Company from developing its product candidates, selling its products or commercializing its patented technology. Thus, patents that the Company owns may not allow it to exploit the rights conferred by its intellectual property protection. The Company's pending patent applications may not result in patents being issued. Even if issued, they may not be issued with claims sufficiently broad to protect its products and technologies or may not provide the Company with a competitive advantage against competitors with similar products or technologies. Furthermore, others may independently develop products or technologies similar to those that the Company has developed or discover the Company's trade secrets. In addition, the laws of many countries do not protect intellectual property rights to the same extent as the laws of Canada and the United States, and those countries may also lack adequate rules and procedures for defending intellectual property rights effectively.

Although the Company has received a patent from the U.S. Patent and Trademark Office for the treatment of HIV-associated lipodystrophy with tesamorelin, there can be no guarantee that the Company will receive a patent in the other countries where it filed a patent application for the treatment of HIV-associated lipodystrophy with tesamorelin.

The Company also relies on trade secrets, know-how and technology, which are not protected by patents, to maintain its competitive position. The Company tries to protect this information by entering into confidentiality undertakings with parties that have access to it, such as the Company's current and prospective suppliers, employees and consultants. Any of these parties may breach the undertakings and disclose our confidential information to the Company's competitors.

Enforcing a claim that a third party illegally obtained and is using trade secrets is expensive and time consuming and the outcome is unpredictable. In addition, it could divert management's attention. If any trade secret, know-how or other technology not protected by a patent were to be disclosed to or independently developed by a competitor, the Company's competitive position could be harmed.

The Company's commercial success depends, in part, on its ability not to infringe on third parties' patents and other intellectual property rights.

The Company's capacity to commercialize its products, and more particularly tesamorelin, will depend, in part, on the non-infringement of third parties' patents and other intellectual property rights. The biopharmaceutical and pharmaceutical industries have produced a multitude of patents and it is not always clear to participants, including the Company, which patents cover various types of products or methods of use. The scope and breadth of patents is subject to interpretation by the courts and such interpretation may vary depending on the jurisdiction where the claim is filed and the court where such claim is litigated. The holding of patents by the Company for its tesamorelin and its application in lipodystrophy does not guarantee that the Company is not infringing on other third parties' patents and there can be no guarantee that the Company will not be in violation of third parties' patents and other intellectual property rights.

Patent analysis for non-infringement is based in part on a review of publicly available databases. Although the Company reviews from time to time certain databases to conduct patent searches, it does not have access to all databases. It is also possible that some of the information contained in the databases has not been reviewed by the Company or was found to be irrelevant at the time the searches were conducted. In addition, because patents take years to be issued, there may be currently pending applications that the Company is unaware of which may later be issued. As a result of the foregoing, there can be no guarantee that the Company will not violate third-party patents.

Because of the difficulty in analyzing and interpreting patents, there can be no guarantee that a third party will not assert that the Company infringes upon any of its patents or any of its other intellectual property rights. Under such circumstances, there is no guarantee that the Company will not become involved in litigation. Litigation with any third party, even if the allegations are without merit, is expensive, time-consuming and will divert management's attention from the daily execution of the Company's business plan. Litigation implies that a portion of the Company's financial assets would be used to sustain the costs of litigation instead of being allocated to further the development of its business plan.

If the Company is involved in patent infringement litigation, it will need to demonstrate that its products do not infringe the patent claims of the relevant patent, that the patent claims are invalid or that the patent is unenforceable. If the Company was found liable for infringement of third parties' patents or other intellectual property rights, the Company could be required to enter into royalty or licensing agreements on terms and conditions that may not be favourable to the Company, and/or pay damages, including up to treble damages (but only if found liable of wilful infringement) and/or cease the development and commercialization of its products. Any finding that the Company is guilty of patent infringement could materially adversely affect the business, financial conditions and operating results of the Company.

The Company has not been served with any notice that it is infringing on a third party patent, but there may be issued patents that the Company is unaware of that its products may infringe, or patents that the Company believes it does not infringe but could be found to be infringing. The Company has reviewed, and is aware of, third-party patents for the reduction of accumulation of fat tissue in HIV patients and the Company believes that it does not infringe any valid claims of these patents.

The Company faces competition and the development of new products by other companies could materially adversely affect the Company's business and its products.

The biopharmaceutical and pharmaceutical industries are highly competitive and the Company must compete with pharmaceutical companies, biotechnology companies, academic and research institutions as well as governmental agencies for the development and commercialization of products. Some of these competitors develop products in the indications in which the Company is involved. All of those products may have a positive effect on the treatment of lipodystrophy and could be considered direct or indirect competitors of tesamorelin.

In the other indications currently being studied by the Company for development, there may exist companies that are at a more advanced stage of developing a product to treat those diseases than the Company is. Some of these competitors have capital resources, research and development personnel and facilities that are superior to the Company's. In addition, some competitors are more experienced than the Company in the commercialization of medical products and already have a sales force in place to launch new products. Consequently, they may be able to develop alternative forms of medical treatment which could compete with the products of the Company and commercialize them more rapidly and effectively than the Company.

The Company's business may be harmed if it is unable to manage its growth effectively.

The Company expects to experience rapid growth throughout its operations if tesamorelin is commercialized. Such growth would place a strain on operational, human and financial resources. To manage its growth, the Company will have to make the transition from development to commercialization of its products, improve its operating and administrative systems and attract and retain qualified management, professional, scientific and technical operating personnel.

There can be no guarantee that the Company will be successful in making the transition from development to commercialization of tesamorelin and keeping pace with developments and the sophisticated needs of its clients since it has limited experience with the commercialization of its products. Failure to manage growth effectively could have an adverse effect on the Company's business, operating results and financial condition.

The Company depends on its key personnel to research, develop and bring new products to the market and the loss of key personnel or the inability to attract highly qualified individuals could have a material adverse effect on its business and growth potential.

The Company's mission is to discover or acquire novel therapeutic products targeting unmet medical needs in attractive specialty markets. The achievement of this mission requires qualified scientific and management personnel. The loss of scientific personnel or of members of management could have a material adverse effect on the business of the Company. In addition, the Company's growth is and will continue to be dependent, in part, on its ability to retain and hire qualified scientific personnel. There can be no guarantee that the Company will be able to continue to retain its current employees or will be able to attract qualified personnel to pursue its business plan.

The Company is not profitable and may never achieve profitability.

For the year ended November 30, 2007, the Company reported losses of \$37,588,000. The Company has been reporting losses since its inception (except for the fiscal years ended November 30, 2001 and 2000) and as at November 30, 2007, it had an accumulated deficit of \$177,339,000. The Company does not expect to generate revenues in the immediate future and will continue to experience losses as it continues to incur operating expenses to further the development of tesamorelin, prepare for its filing of an NDA with the FDA, seek to obtain regulatory approvals for tesamorelin for the treatment of HIV-associated lipodystrophy, prepare the commercialization of tesamorelin, continue the development of its other analogues and peptides and expand its research program. As a result of the foregoing, the Company will need to generate significant revenues to achieve profitability.

The Company's profitability will depend on its capacity to commercialize tesamorelin, to control its selling, general and administrative expenses and to develop additional products. There is no guarantee that the Company will succeed in commercializing its products, controlling its expenses and developing additional products, and, therefore, it may never become profitable.

The Company may require additional funding and may not be able to raise the capital necessary to continue and complete the research and development of its products and their commercialization.

The Company does not generate revenues and needs financing in order to continue its research and development of new products and its clinical programs, develop its marketing and commercial capabilities and meet its compliance obligations with the various rules and regulations to which it is subject. In the past, the Company has been financed through public equity offerings and the Company may effect additional equity offerings to raise capital, the size of which cannot be predicted. The issuance and sales of substantial amounts of equity or other securities, or the perception that such issuances and sales may occur, could adversely affect the market price of the common shares.

Moreover, the market conditions or the business performance of the Company may prevent it from having access to the public market in the future. Therefore, there can be no guarantee that the Company will be able to continue to raise capital by way of public equity offerings. In such a case, the Company will have to use other means of financing, such as issuing debt instruments or entering into private financing agreements, the terms and conditions of which may not be favourable to the Company. If adequate funding is not available to the Company, it may be required to delay, reduce or eliminate its research and development of new products, its clinical trials or its marketing and commercialization efforts to launch and distribute new products.

The Company may not achieve its publicly announced milestones in due time.

From time to time, the Company publicly announces the timing of the occurrence of certain events. These statements are forward-looking and are based on management's best estimate relating to the occurrence of such events. However, the actual timing of such events may differ from what has been publicly disclosed. Events such as completion of a clinical program, discovery of a new peptide or analogue, filing of an NDA, commencement of commercialization or announcement of an additional indication for a product may vary from what is publicly disclosed. These variations may occur as a result of a series of events, including the nature of the results obtained during a clinical trial or during a research phase, problems with a supplier or any other event having the effect of delaying the timeline publicly announced. The Company's policy on forward-looking information consists in not updating it if the publicly disclosed timeline varies. Any variation in the timing of certain events having the effect of postponing such events could have an adverse material effect on the business plan, financial conditions or operating results of the Company.

The outcome of scientific research is uncertain and the failure by the Company to discover new products could slow down the Company's growth.

The Company conducts research activities in order to feed its product pipeline. The outcome of scientific research is uncertain and may prove unsuccessful and, therefore, may not lead to the discovery of new molecules and progression of existing molecules to an advanced development stage. The inability of the Company to develop new molecules or to further develop the existing ones could slow down the growth of the Company.

The development and commercialization of drugs could expose the Company to liability claims which could exceed its insurance coverage.

A risk of product liability claims is inherent in the development and commercialization of human therapeutic products. Product liability insurance is very expensive and offers limited protection. A product liability claim against the Company could potentially be greater than the coverage offered and, therefore, have a material adverse effect upon the Company and its financial position. Furthermore, a product liability claim could tarnish the Company's reputation, whether or not such claims are covered by insurance or are with or without merit.

The Company may not receive the full payment of all milestones or royalty payments pursuant to the agreements entered into with third parties and, consequently, the financial conditions and the operating results of the Company could be adversely impacted.

The Company has entered into license agreements and other forms of agreements with third parties regarding the development and commercialization of some of its analogues and peptides. These agreements generally require that the third party pays to the Company certain amounts upon the attainment of various milestones and royalties on the sale of the developed product. There can be no guarantee that the Company will receive the payments described in those agreements since the development of the analogues or the peptides may be cancelled if the research does not yield positive results. Under such circumstances, the Company would not receive royalties as well. Even if the development of an analogue or peptide yields positive results, all of the risks described herein with respect to the obtaining of regulatory approval are applicable. Finally, if there occurs a disagreement between the Company and the third party, the payment relating to the attainment of milestones or of royalties may be delayed. The occurrence of any of those circumstances could have a material adverse effect on the Company's financial condition and operating results.

There can be no assurance that the Review Process will result in any specific strategic or financial transactions and no timetable has been set for its completion.

Although the Company is reviewing various strategic alternatives, including entering into co-promotion or partnership agreements, pursuing business acquisitions or seeking a sale of the Company, there can be no guarantee that any transaction or other alternatives will ultimately be completed and will result in superior value for the shareholders of the Company. Moreover, the Company may be required to expend significant resources in connection with the Review Process, which may have a material adverse impact on the availability and capital required to implement the Company's business plan.

The Company's common share price is volatile and investors could lose money as a result of such volatility.

The market price of the Company's common shares is subject to volatility. General market conditions as well as differences between the Company's financial, scientific and clinical results and the expectations of investors as well as securities analysts can have a significant impact on the trading price of the Company's common shares. In recent years, the stocks of many biopharmaceutical companies have experienced extreme price fluctuations, unrelated to the operating performance of the affected companies. There can be no assurance that the market price of the common shares will not continue to experience significant fluctuations in the future, including fluctuations that are unrelated to the Company's performance. The occurrence of any of the above risks and uncertainties could have a material adverse effect on the price of the common shares.

FORWARD-LOOKING INFORMATION

This annual report and the management's discussion and analysis contained herein contain certain statements that are considered "forward-looking information" within the meaning of applicable securities legislation. This forward-looking information includes, but is not limited to, information regarding the Phase 3 clinical program of tesamorelin (such as the completion and announcement of the results of the Phase 3 studies and the filing of an NDA with the FDA), the commercialization of tesamorelin in HIV-associated lipodystrophy, the size of the HIV-associated lipodystrophy market, the estimated costs of research and development programs and the liquidity needs to finance the Company's operation. Furthermore, the words "will", "may", "could", "should", "outlook", "believe", "plan", "envisage", "anticipate", "expect" and "estimate", or the negatives of these terms or variations of them and the use of the conditional tense as well as similar expressions, denote forward-looking information.

Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the Company's control, that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties are described under the section "Risks and Uncertainties" and include, but are not limited to, the negative results that the current Phase 3 clinical studies may yield, the risk that the Company may not obtain all required approvals from regulatory agencies to market its products, the risk that the Company's products may not be accepted by the market, the difficulties the Company may encounter in building its sales force and the delays that may occur if the Company encounters problems with a third-party supplier of services.

Although the forward-looking information contained in this annual report and the management's discussion and analysis contained herein is based upon what the Company believes are reasonable assumptions, investors are cautioned against placing undue reliance on this information since actual results may vary from the forward-looking information. Certain assumptions made in preparing the forward-looking information and the Company's objectives include the assumption that past results obtained from the first Phase 3 clinical study will be repeated, that the time required to analyse and report the results of the Company's clinical studies will be consistent with past timing, that discussions to be held with the FDA will be positive, that market data and report reviewed by the Company are accurate and that current relationships with the Company's third-party suppliers of services and products will remain good.

Consequently, all of the forward-looking information contained in this annual report and the management's discussion and analysis contained herein is qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences or effects on the Company, its business, financial condition or operating results. The Company does not undertake to update or amend such forward-looking information whether as a result of new information, future events or otherwise, except as may be required by applicable law.

ADDITIONAL INFORMATION ABOUT THERATECHNOLOGIES

Further information about Theratechnologies can be found at www.theratech.com. Additional information, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

MANAGEMENT'S REPORT

The consolidated financial statements of Theratechnologies Inc. presented in the following pages and all information in this annual report are the responsibility of management and are subject to approval by the Board of Directors of the Company.

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. They include amounts based on judgment and estimates. Management has established these amounts reasonably to ensure that financial results are presented accurately in all material respects. The other financial information included in the annual report is consistent with that of the financial statements.

In order to ensure accuracy and objectiveness of information included in the financial statements, the Company's management maintains internal accounting and administrative control systems. Management is of the opinion that these controls provide reasonable assurance regarding the adequacy of the accounting records for the preparation of the financial statements and the adequacy of the recording and safeguarding of assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board, and none of its members is involved in the daily operations of the Company. All the members of this Committee are financially literate. The Committee

meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that everyone is properly discharging their responsibilities, and to review the financial statements with the external auditors.

The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the re-appointment of the external auditors.

The financial statements have been audited on behalf of the shareholders by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. The external auditors have full and free access to the Audit Committee with respect to their findings concerning the fairness of the financial reporting and the adequacy of internal controls.



Yves Rosconi
President and
Chief Executive Officer

Montréal, Canada
February 13, 2008



Luc Tanguay
Senior Executive Vice President
and Chief Financial Officer