

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, 2008 ("2008") and November 30, 2007 ("2007"). This information is dated January 23, 2009 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 ("GAAP"). Unless specified otherwise, the amounts are in Canadian dollars.

Overview

Theratechnologies is a Canadian biopharmaceutical company that discovers 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 compound, tesamorelin, is an analogue of the growth hormone releasing factor. Theratechnologies recently concluded a confirmatory Phase 3 clinical trial evaluating tesamorelin in HIV-associated lipodystrophy, a serious metabolic disorder associated with excess abdominal fat. The Company also has other projects at earlier stages of development.

Throughout 2008, the clinical activities of Theratechnologies were focused on the confirmatory study, the second element of the Phase 3 clinical program evaluating tesamorelin in HIV-associated lipodystrophy. This study was conducted in over 400 patients in North America and Europe with the objective of confirming the results of the first Phase 3 trial. In June, the Company announced the top-line results of the confirmatory study after 26 weeks of treatment and in December, following the financial year end, the top-line results after 52 weeks of treatment were announced. These results were in line with those of the first study, announced in December 2006 and October 2007. Finally, in May 2008, Theratechnologies announced an agreement with the Massachusetts General Hospital and Dr. Steven Grinspoon to explore the use of tesamorelin in relative growth hormone deficient abdominally obese subjects. The agreement stipulates that the Company supplies the tesamorelin and has no other obligations, financial or otherwise, in the execution of this study, but it will be entitled to any benefits that may flow from the results generated in this trial. Dr. Grinspoon was awarded a grant by the National Institutes of Health to conduct the study.

On the regulatory front, Theratechnologies was very active in 2008, working on the preparation of the New Drug Application ("NDA") which must be submitted to the Food and Drug Administration ("FDA"), the American regulatory agency that will be responsible for making a decision on the approval of tesamorelin in the United States. A preparatory meeting for Theratechnologies' regulatory submission was held at the FDA in September 2008. This meeting, which is an integral part of the submission process, is principally to determine the best way to present the data to the American regulatory authorities. The submission of a NDA to the FDA is the Company's top priority in 2009.

With respect to overall strategy, in early 2008, the Board of Directors of Theratechnologies embarked on a process of examining strategic options. The options considered included partnership transactions or strategic licensing in relation to tesamorelin, the acquisition of complementary products or businesses, and the sale or merger of the Company. In parallel with the strategic review, the Company completed a public offering of 3,500,000 common shares for cash proceeds of \$29,750,000 in order to adequately finance its operations and ensure that it had the financial flexibility needed for the strategic review being conducted by the Board of Directors.

The strategic review concluded on October 28, 2008, with the signing of a collaboration and licensing agreement with EMD Serono, Inc., an affiliate of Merck KGaA, of Darmstadt, Germany (the "Collaboration and Licensing Agreement"). The agreement covers the exclusive commercialization rights of tesamorelin in the United States for the treatment of excess abdominal fat in HIV patients with lipodystrophy and stipulates that Theratechnologies could receive up to US \$215 million (\$265 million), including the upfront payment and milestone payments based on attaining certain development, regulatory and sales objectives. The Company will also be entitled to receive escalating royalties on annual net sales of tesamorelin in the United States. Theratechnologies retains all tesamorelin commercialization rights outside of the United States.

On December 15, 2008, at the end of the waiting period under the Hart-Scott Rodino Act, Theratechnologies completed the transaction related to the Collaboration and Licensing Agreement. At the closing of this transaction, Theratechnologies received a payment of \$37.0 million, which includes an upfront payment of \$27.1 million from EMD Serono, Inc. (“EMD Serono”) and a common share subscription totalling \$9.9 million by Merck KGaA at a price of \$4.52 per share. On a pro forma basis, including the funds received at the closing of this transaction (net of closing costs), liquidities and tax credits receivable at the end of the year would have been \$80.8 million.

ECONOMIC ENVIRONMENT

Over the past year, the capital markets were characterized by significant stock market volatility and a notable decline in access to capital across all sectors and particularly in biotechnology. In parallel, an economic slowdown occurred in almost all sectors.

The general decline of capital markets has had a negative effect on the cost of capital for companies.

The Company does not envisage raising money because its liquidity level is sufficient to meet the operating needs of its current business plan. Furthermore, milestone payments and future royalties make it possible for the Company to fully finance its business plan beyond the commercialization of tesamorelin for its first indication in the United States.

The Company’s investment policy is conservative. The Company invests its funds in highly liquid, low-risk instruments as described under the heading “Liquidity and capital resources”. The Company holds no asset-backed commercial paper.

The Company relies on third parties for the manufacture and supply of its tesamorelin. The Company is not aware of any information suggesting that its principal suppliers will not be able to meet their obligations.

Selected annual information

CONSOLIDATED STATEMENT OF EARNINGS

YEARS ENDED NOVEMBER 30

(in thousands of Canadian dollars, except per share amounts)	2008	2007	2006
Revenues	\$ 2,641	\$ 3,134	\$ 1,649
Research and development before tax credits	\$ 35,326	\$ 31,866	\$ 22,049
Operating loss before loss on investments	\$ (48,375)	\$ (37,531)	\$ (25,861)
Loss on investments in companies	\$ (578)	\$ (57)	\$ —
Net loss	\$ (48,953)	\$ (37,588)	\$ (25,861)
Basic and diluted loss per share	\$ (0.85)	\$ (0.71)	\$ (0.60)

CONSOLIDATED BALANCE SHEET

AT NOVEMBER 30

(in thousands of Canadian dollars)	2008	2007	2006
Liquidities (cash and bonds)	\$ 46,337	\$ 60,368	\$ 35,680
Tax credits receivable	\$ 1,784	\$ 1,418	\$ 1,911
Investments in public companies	\$ 41	\$ 635	\$ 836
Total assets	\$ 54,144	\$ 74,590	\$ 50,968
Capital stock	\$ 269,219	\$ 238,842	\$ 177,552
Shareholders' equity	\$ 46,946	\$ 65,977	\$ 44,475

Operating results

REVENUES

The technologies' consolidated revenues for the year ended November 30, 2008 were \$2,641,000 compared to \$3,134,000 in 2007. The revenues are principally composed of interest on investments. For the year ended November 30, 2008, interest revenues were comparable to those of 2007, reflecting lower interest rates in 2008 compensated by higher average liquidity levels.

The 2008 revenues from royalties, technologies and other include an amount of \$193,000 attributable to a license agreement signed with PDC Biotech GmbH for a family of peptides aimed at programs in preterm labour and primary dysmenorrhea. The 2007 revenues included \$619,000 attributable to a license agreement by the Company through which OctoPlus N.V. ("OctoPlus") acquired the worldwide rights to the development and commercialization of the Company's glucagon-like peptide-1 (GLP-1) portfolio of analogues for the treatment of diabetes and other potential indications.

R&D ACTIVITIES

Consolidated research and development ("R&D") expenditures, before tax credits, amounted to \$35,326,000 for the year ended November 30, 2008, compared to \$31,866,000 in 2007. The increase in R&D expenditures in 2008 is explained by increased activities related to completing the clinical program for tesamorelin in HIV-associated lipodystrophy as well as higher expenses related to the preparation of a NDA for the FDA in the United States. Stock-based compensation attributable to R&D was lower, however, at \$593,000 compared to \$1,122,000 in 2007.

The majority of R&D expenses in 2008 were applied to tesamorelin in HIV-associated lipodystrophy. The current business plan calls for this trend to continue in 2009.

The Company is currently working with its commercial partner to finalize the regulatory submission, including therein the 52-week data from the confirmatory trial. The inclusion of these data, which became available at the end of 2008, should allow the Company to file the best possible submission and thereby optimise the labelling of tesamorelin.

The Company expects to submit a NDA for tesamorelin in the United States before the end of the second quarter.

TAX CREDITS

Tax credits amounted to \$2,111,000 for the year ended November 30, 2008, compared to \$1,652,000 in 2007. Tax credits represent refundable tax credits obtained from the Québec Government. Higher R&D expenditures in 2008 contributed to the increase in tax credits.

OTHER EXPENSES

For the year ended November 30, 2008, general and administrative expenses were \$6,185,000, compared to \$7,260,000 in 2007. The decrease in 2008 is attributable to a decrease of \$803,000 in stock-based compensation and a \$351,000 reduction in exchange loss.

Selling and market development expenses were \$3,811,000, compared to \$2,351,000 in 2007. The increase in these charges is related to pre-commercialization expenses for tesamorelin in HIV-associated lipodystrophy. Following the Collaboration and Licensing Agreement, the growth in selling and market development expenses will be significantly lower.

For the year ended November 30, 2008, patents, amortization and impairment of other assets amounted to \$5,581,000, compared to \$840,000 in 2007. In the fourth quarter of 2008, the Company wrote off \$287,000 of patent expenses following a review by management of its development strategy and choice of a specific molecule for the acute renal failure program. The Company also conducted an impairment test on the intellectual property of the ExoPep discovery platform following a review of the development strategy for new products by management. As a consequence, the Company wrote off the carrying amount of this intellectual property in 2008. The write down of \$4,571,000 is included in "Patents, amortization and impairment of other assets" in the Consolidated Statement of Earnings.

The costs related to the strategic review and the Collaboration and Licensing Agreement amounted to \$2,224,000 for 2008. These costs are essentially composed of fees paid to the various experts retained to help management and the board of directors. See "Subsequent events".

In 2008, the Company incurred an impairment of \$578,000 related to a decline in value that is other than temporary for stock options held in OctoPlus N.V.

NET RESULTS

Reflecting the changes in revenues and expenses described above, the Company incurred a net loss of \$48,953,000 or \$0.85 per share in 2008 compared to \$37,588,000 or \$0.71 per share in 2007. The net loss in 2008 includes the previously described impairment charges totalling \$5,436,000.

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)							
	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$ 616	\$ 710	\$ 716	\$ 599	\$ 1,294	\$ 748	\$ 805	\$ 287
Net loss	\$ (15,440)	\$ (11,224)	\$ (11,398)	\$ (10,891)	\$ (10,279)	\$ (9,781)	\$ (8,089)	\$ (9,439)
Basic and diluted								
loss per share	\$ (0.27)	\$ (0.19)	\$ (0.20)	\$ (0.20)	\$ (0.19)	\$ (0.18)	\$ (0.15)	\$ (0.20)

The fourth quarter revenues of 2007 include \$619,000 paid in the form of stock options and representing an upfront payment for the worldwide rights to the development and commercialization of the Company's GLP-1 program granted to OctoPlus. The increase in the fourth quarter loss in 2008 is related to impairments totalling \$5,436,000.

Fourth quarter

Consolidated revenues for the three-month period ended November 30, 2008 amounted to \$616,000 compared to \$1,294,000 in the same period of 2007. Interest revenues in the fourth quarter of 2008 were lower than those of 2007, reflecting lower liquidities in 2008 as well as a general decline in market interest rates. The fourth quarter revenues of 2007 include \$619,000 attributable to a license between the Company and OctoPlus.

Consolidated research and development (R&D) expenditures, before tax credits, totalled \$6,313,000 for the fourth quarter of 2008, compared to \$8,475,000 in 2007. The lower level of R&D expenses in the fourth quarter is due to the conclusion of the confirmatory Phase 3 trial.

General and administrative expenses were \$1,874,000 in the fourth quarter of 2008, compared to \$2,064,000 for the same period in 2007. The lower expenses in 2008 reflect various non-recurring items experienced in 2007.

Selling and market development expenses for the fourth quarter of 2008 amounted to \$1,124,000, compared to \$689,000 for the same period in 2007. The increase in these charges is related to pre-commercialization expenses for tesamorelin in HIV-associated lipodystrophy. Following the Collaboration and Licensing Agreement, the growth in selling and market development expenses will be significantly lower.

Patents, amortization and impairment of other assets amounted to \$5,022,000 for the three months ended November 30, 2008, compared to \$240,000 for the corresponding period in 2007. In the fourth quarter of 2008, the Company wrote off \$287,000 of patent expenses following a review by management of the development strategy and choice of a specific molecule for the acute renal failure program. The Company also conducted an impairment test on the intellectual property of the ExoPep discovery platform following a review of the development strategy for new products by management. As a consequence, the Company wrote off the carrying amount of this intellectual property in 2008. The write down of \$4,571,000 is included in "Patents, amortization and impairment of other assets" in the Consolidated Statement of Earnings.

In 2008, the Company incurred an impairment charge of \$578,000 related to a decline in value that is other than temporary for stock options held in OctoPlus.

Consequently, the Company recorded a net loss for the three-month period ended November 30, 2008 of \$15,440,000 or \$0.27 per share, compared to \$10,279,000 or \$0.19 per share in 2007. The 2008 net loss includes the previously described impairment charges totalling \$5,436,000.

In the three months ended November 30, 2008, the burn rate from operating activities, excluding changes in operating assets and liabilities, was \$9,527,000 compared to \$9,958,000 in 2007.

Liquidity and capital resources

The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its research and development activities, general and administrative expenses, working capital and overall capital expenditures, and patents. The Company makes every attempt to manage its liquidity to minimize shareholder dilution.

To fund its activities, the Company has followed an approach that relies almost exclusively on the issuance of common equity and proceeds and royalties from technologies following the closing of the transaction described under "Subsequent events". Since inception, the Company has financed its liquidity needs primarily through public offerings of common shares and private placements. When possible, the Company tries to optimize its liquidity position through non-dilutive sources, including investment tax credits, grants, interest income as well as proceeds and royalties from technologies.

For the year ended November 30, 2008, the burn rate, represented by cash flows from operating activities and excluding changes in operating assets and liabilities, was \$41,493,000 compared to \$34,698,000 in 2007. The increase in the burn rate in 2008 reflects the planned increase in activities necessary to complete the Phase 3 tesamorelin studies as well as the strategic review process and the Collaboration and Licensing Agreement.

Based on the current business plan, the burn rate for 2009 is expected to decline over the course of the year to reach a level that will be approximately 30% lower than that of 2008. This reduction is principally related to lower research and development expenses following the submission of a NDA for tesamorelin in the United States. Considering the liquidity level and the decline in the burn rate, the Company is capable of fully financing its current business plan beyond the commercialization of tesamorelin for its first indication in the United States.

Theratechnologies maintained a good liquidity position in 2008. At November 30, 2008, cash and bonds amounted to \$46,337,000 and tax credits receivable amounted to \$1,784,000, for a total of \$48,121,000.

On a *pro forma* basis, including the funds received at the closing of the Collaboration and Licensing Agreement (see “Subsequent events”), liquidities and tax credits receivable at the end of 2008 would have been \$80,812,000.

It is the policy of the Company to minimize its level of debt. The Company has a line of credit of \$1,800,000 for its short-term financing needs. As at November 30, 2008, this line of credit was not being used. However, \$505,000 of this amount was allocated to secure an irrevocable letter of credit related to lease commitments on its premises.

The Company invests its available cash in highly liquid fixed income instruments from governmental, municipal and para-governmental bodies (\$43,795,000 at November 30, 2008) as well as from companies with high credit ratings (\$2,409,000 at November 30, 2008).

During the first quarter of 2008, the Company completed a public offering for the sale and issuance of 3,500,000 common shares for cash proceeds of \$29,750,000. Issue costs totalled \$1,938,000, resulting in net proceeds of \$27,812,000. In the year ended November 30, 2008, the Company issued 119,666 common shares following the exercise of stock options, for cash proceeds of \$397,000. The Company also received share subscriptions amounting to \$149,000 for the issuance of 64,291 common shares to employees in connection with its share purchase plan.

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 total cash consideration of \$57,750,000. Issue costs totalled \$3,188,000, resulting in net proceeds 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 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.

Contractual obligations

As at November 30, 2008, the Company's commitments are principally obligations under an operating lease related to its premises (See 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	\$ 1,156	\$ 816	\$ 340	—	—

Off-balance sheet arrangements

The Company was not involved in any off-balance sheet arrangements as at November 30, 2008, with the exception of an irrevocable letter of credit issued in the amount of \$505,000 related to lease commitments.

Subsequent events

COLLABORATION AND LICENSING AGREEMENT

On October 28, 2008, the Company entered into the Collaboration and Licensing Agreement, granting the exclusive commercialization rights of tesamorelin in the United States for the treatment of excess abdominal fat in HIV patients with lipodystrophy (the "Initial Product") to EMD Serono. Theratechnologies retains all tesamorelin commercialization rights outside of the United States.

Under the terms of the agreement, the Company is responsible for the development of the Initial Product up to obtaining marketing approval in the United States. The Company is also responsible for product production and for the development of a new formulation of the Initial Product. EMD Serono is responsible for conducting product commercialization activities.

At the closing of the agreement, on December 15, 2008, the Company received US \$30,000,000 (\$36,951,000) which includes an initial payment of US \$22,000,000 (\$27,097,000) and US \$8,000,000 (\$9,854,000) as a subscription for common shares in the Company by Merck KGaA at a price of US \$3.67 (\$4.52) per share. The Company may receive up to US \$215,000,000 (\$265,000,000), which amount includes the initial payment of US \$22,000,000, the equity investment of US \$8,000,000 as well as payments based on the achievement of certain development, regulatory and sales milestones. The Company will also be entitled to receive escalating royalties on annual net sales of tesamorelin in the United States.

The Company may conduct research and development for additional indications. EMD Serono will have the option to commercialize additional indications for tesamorelin in the United States. If it exercises this option, EMD Serono will pay half of the development costs related to such additional indications. In such cases, the Company will also have the right, subject to EMD Serono's agreement, to participate in the promotion of the additional indications.

The fees associated with the strategic review process and the conclusion of the Collaboration and Licensing Agreement amounted to \$2,224,000 in 2008 and the transaction costs payable at closing are estimated at \$4,260,000 for 2009.

GRANTING OF STOCK OPTIONS

On December 18, 2008, the Company issued 590,500 stock options at a strike price of \$1.80 per share in connection with its compensation program.

Financial risk management

The following disclosure relates to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, and how the Company manages those risks.

CREDIT RISK

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of this exposure resulting in losses.

Financial instruments other than cash that potentially subject the Company to significant credit risk consist principally of bonds. The Company invests its available cash in fixed income instruments from governmental, para-governmental and municipal bodies (\$43,795,000 as at November 30, 2008) as well as from corporations with high credit ratings (\$2,409,000 as at November 30, 2008). As at November 30, 2008, the Company was not exposed to any credit risk over the carrying amount of the bonds.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As outlined under "Liquidity and capital resources", the Company manages this risk by managing its capital structure. In addition, it manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors and/or the audit committee reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business.

The Company has adopted an investment policy in respect of the safety and preservation of its capital to ensure the Company's liquidity needs are met.

The instruments are selected with regard to the expected timing of expenditures and prevailing interest rates. Bonds mature during the following fiscal years: \$10,955,000 in 2009, \$14,367,000 in 2010, \$14,776,000 in 2011 and \$6,106,000 in 2012. The required payments on the contractual maturities of financial liabilities and the payments required under the terms of the operating lease are presented in note 13B) of the Consolidated Financial Statements.

FOREIGN CURRENCY RISK

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar, primarily expenses for research and development incurred in US dollars, euros and pounds sterling ("GBP"). The Company does not use derivative financial instruments to reduce its foreign exchange exposure.

The Company manages foreign exchange risk by maintaining US cash on hand to support US forecasted cash outflows for a maximum 12-month period. The Company does not currently view its exposure to the euro and GBP as a significant foreign exchange risk due to the limited volume of transactions conducted by the Company in these currencies.

The Company believes that the results of operations and cash flows would be affected by a sudden change in foreign exchange rates, but that it would not impair or enhance its ability to pay its US dollar denominated obligations.

The following table provides significant items exposed to foreign exchange as at November 30, 2008:

(in thousands of Canadian dollars)	November 30, 2008		
	US\$	EURO	GBP
Cash	1	—	—
Accounts receivable	—	—	—
Accounts payable and accrued liabilities	(2,589)	(159)	(348)
Balance sheet elements exposed to foreign currency risk	(2,588)	(159)	(348)

The following exchange rates applied during the year ended November 30, 2008:

	Average rate	Reporting date rate
	November 30, 2008	November 30, 2008
US\$ - CAD\$	1.0479	1.2370
EURO - CAD\$	1.5440	1.5711
GBP - CAD\$	1.9767	1.9060

Based on the Company's foreign currency exposures noted above, varying the foreign exchange rates in the preceding table to reflect a 5% strengthening of the Canadian dollar would have decreased the net loss as follows, assuming that all other variables remained constant:

(in thousands of Canadian dollars)	US\$	EURO	GBP
	Decrease in net loss	129	8

An assumed 5% weakening of the Canadian dollar would have had an equal but opposite effect on the foreign currency amounts shown above, on the basis that all other variables remain constant.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Short-term bonds of the Company are invested at fixed interest rates and mature in the short-term. Long-term bonds are also instruments that bear interest at fixed rates. The risk that the Company will realize a loss as a result of a decline in the fair value of its bonds is limited because these investments, although they are available for sale, are generally held to maturity. Unrealized gains or losses on bonds are recorded in the "Accumulated other comprehensive loss".

Cash bears interest at a variable rate. Accounts receivable, accounts payable and accrued liabilities bear no interest.

Based on the value of variable interest-bearing cash during the year-ended November 30, 2008, an assumed 0.5% point increase in interest rates during such period would have decreased cash flows from operating activities and the net loss by \$31,000, with an equal but opposite effect for an assumed 0.5% point decrease in interest rates.

Financial instruments

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

Bonds and investments in public companies are stated at estimated fair value, determined by prices quoted on active markets.

Critical accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions, which 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 judgment 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 asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in 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, which take management judgment into consideration. Changes in circumstances, such as technological advances and changes in business strategy can result in useful lives and future cash flows differing significantly from estimates. Revisions to the estimated useful lives of property and equipment or future cash flows constitute a change in accounting estimate 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 most likely 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, 2008, the Company determined that a tax valuation allowance for the full amount of future tax assets was necessary. In the event the Company determines that it can realize its tax assets, it will readjust them for the amount and adjust the income in the period for 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.

New accounting policies

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective with the commencement of its 2008 fiscal year, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*, CICA Handbook Section 3862, *Financial Instruments — Disclosures*, and CICA Handbook Section 3863, *Financial Instruments — Presentation*. The Sections relate to disclosure and presentation only and did not have an impact on the Company's financial results (See notes 12 and 13 of the Consolidated Financial Statements).

Effective with the commencement of its 2007 fiscal year, the Company has adopted the recommendations of the CICA Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments — Recognition and Measurement*, and CICA Handbook Section 3865, *Hedges*. On December 1, 2006, the impact of these changes in accounting policies of \$79,000 is included in the opening balance of accumulated other comprehensive income.

FUTURE ACCOUNTING CHANGES

Inventories

In June 2007, the CICA issued Section 3031, *Inventories*, which replaces Section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards (IFRS). This Section provides changes to the measurement and more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. This Section will apply to the Company's interim and annual financial statements beginning December 1, 2008. As the Company had no inventories on November 30, 2008, the adoption of this section will have no impact on the Company's financial statements.

Goodwill and intangible assets

In January 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, which will replace Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard will apply to the Company's interim and annual financial statements beginning on December 1, 2008 and will be applied retrospectively. The impact of adopting this standard will be to increase the opening deficit at December 1, 2006 by \$861,000, which is the amount of patent costs related to periods prior to this date, as well as to increase the net loss by \$80,000 in 2007 and to decrease the net loss by \$342,000 in 2008.

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, would be fully converged into IFRS, as issued by the International Accounting Standards Board ("IASB"). The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Company will be required to report under IFRS for its 2012 interim and annual financial statements. The Company will convert to these new standards according to the timetable set within these new rules. The Company has not determined the impact of adopting the standards on its Consolidated Financial Statements.

Outstanding share data

At January 23, 2009, the number of shares issued and outstanding was 60,394,927, while outstanding options granted under the stock option plan were 2,748,800.

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, all existing systems were documented and inadequacies were corrected as needed. That documentation has been updated in 2008.

Risks and uncertainties

Investors should understand that the Company operates in a high risk industry. The Company has identified the following risks and uncertainties that may have a material adverse effect on its business, financial condition or results of operations. Investors should carefully consider the risks described below before purchasing securities of the Company. The risks described below are not the only ones the Company faces. Additional risks not presently known to the Company or that the Company currently believes are immaterial may also significantly impair its business operations. The Company's business could be harmed by any of these risks.

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 products of the Company, including tesamorelin, are subject to preclinical and clinical studies and additional testing and if the results of such studies or testing 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 do additional clinical studies or testing on any of its products until the results support the safety and efficacy of such products, therefore incurring additional delays and costs.

The filing of a 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 files its NDA to the FDA, or the equivalent thereof in other countries, or has obtained positive results relating to the safety and efficacy of a product, a regulatory agency may not accept the filing or the results contained therein as being conclusive to 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.

Although the Company has received a special protocol assessment ("SPA") from the FDA and the Company has followed it and met the primary medical end-points described therein, 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 marketing and promotional requirements. The manufacturing facilities for the Company's tesamorelin will also be subject to continuous reviews and periodic inspections and approval of manufacturing modifications. Manufacturing facilities are subject to inspections by the FDA and must comply with FDA good manufacturing practices ("GMP") regulations. The 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 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 products, 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. Although the Company entered into the Collaboration and Licensing Agreement in fiscal 2008 for the commercialization of its tesamorelin for the treatment of HIV-associated lipodystrophy in the United States, there can be no guarantee that tesamorelin will be commercialized in this country, or in any other country. The commercialization of tesamorelin for the treatment of HIV-associated lipodystrophy will depend on several factors:

- receipt of regulatory approvals of tesamorelin for the treatment of HIV-associated lipodystrophy 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 in countries other than the United States to help the marketing and sale of tesamorelin for the treatment of HIV-associated lipodystrophy;
- in the United States, the amount of resources used by its commercial partner to commercialize tesamorelin;
- maintaining manufacturing and supply agreements to ensure commercial quantities of tesamorelin through validated processes;
- 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 affect its financial condition and operating results.

The Company is dependent on the Collaboration and Licensing Agreement for the commercialization of tesamorelin for the treatment of HIV-associated lipodystrophy in the United States. This agreement places the commercialization of tesamorelin outside of its control.

Under the terms of the Collaboration and Licensing Agreement entered into by the Company in fiscal 2008, the Company granted its commercial partner the exclusive right to commercialize tesamorelin for the treatment of HIV-associated lipodystrophy in the United States. Although the agreement contains provisions governing the commercialization of tesamorelin for the treatment of HIV-associated lipodystrophy in the United States, the Company's dependence on its commercial partner for such purpose subjects it to a number of risks, including:

- the lack of control by the Company on the amount and timing of resources that its commercial partner will be devoting to the commercialization, marketing and distribution of tesamorelin, which could adversely affect the Company's ability to obtain or maximize its royalty payments;
- disputes or litigation that may arise between the Company and its commercial partner, which could result in delays regarding the commercialization of tesamorelin in the United States, all of which will divert the Company's management attention and resources;
- its commercial partner not properly defending the Company's intellectual property rights or using them in such a way as to expose the Company to potential litigation, which could, in both cases, adversely affect the value of the Company's intellectual property rights;
- corporate reorganizations or changes in business strategies of its commercial partner, which could adversely affect such commercial partner's willingness or ability to complete its obligations under the Collaboration and Licensing Agreement;
- the termination of the Collaboration and Licensing Agreement, which would delay the commercialization of tesamorelin for the treatment of HIV-associated lipodystrophy in the United States.

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 a 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. Although the clinical studies for tesamorelin related to the treatment of HIV-associated lipodystrophy are completed, certain analyses must be completed for the submission of a NDA to the FDA. If these remaining analyses are not completed quickly or if they show anomalies, the submission of a NDA to the FDA and the commercialization of tesamorelin for the treatment of HIV-associated lipodystrophy will be delayed. Any delay in submitting a NDA to the FDA could adversely materially impact the capacity of the Company to generate revenues, its financial condition and its 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 of the Company are in early development stages and there remain 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, 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 one of these 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 with the Company, such as failing to do the testing, compute the data or complete the reports further to the testing, 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 a NDA, or its equivalent in other jurisdictions. If the damages to any of the Company's third-party suppliers of services are material, or, for any reason, such suppliers do not operate in compliance with good laboratory practices ("GLP") 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 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 filing of any new drug application with regulatory agencies for the purposes of obtaining 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 enrollment of patients and difficulties in enrolling patients will delay the conduct of the Company's clinical trials or result in their non-completion.

The conduct of clinical trials by the Company requires the enrollment 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 a NDA, or the equivalent thereof, with regulatory agencies and the commercialization of products. Such events may adversely affect the business, the financial condition and the results of operations 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, including 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 that the Company's data will be perceived as sufficient for third-party payers to accept to reimburse one of the Company's products.

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 or experienced partners 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 partners);
- 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, 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 and any other peptide. 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. Under the Collaboration and Licensing Agreement, the Company agreed to act as supplier of tesamorelin for its commercialization in the United States. Accordingly, any delay in manufacturing tesamorelin by third-party suppliers may have a material adverse effect on the sales and royalties payable to the Company. In addition, any delay in manufacturing tesamorelin may result in the Company being in default under the Collaboration and Licensing Agreement. 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.

The Company must build its own sales force or enter into commercial agreements with third parties for the sale and marketing of its products and there is no guarantee that the Company will be able to achieve 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 commercial agreements with third parties. The development of a sales force is costly and will be time-consuming given the limited experience the Company has in this area. To the extent the Company develops a sales force, the Company will be competing against companies who have more experience in managing a sales force than the Company has and that have 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 could develop would be efficient and would maximize the revenues derived from the sale of the Company's products.

Although the Company was successful in finding a third party for the commercialization of tesamorelin for the treatment of HIV-associated lipodystrophy in the United States, the canvassing of third parties and conclusion of an agreement with one is a lengthy process which includes, among other things, an analysis of the capacity of the third party, the assessment of the services to be performed by the third party, 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 any other commercial agreement for the commercialization of its products, including the commercialization of tesamorelin for the treatment of HIV-associated lipodystrophy in countries other than the United States. The Company may have to delay the launch of its products if it is unable to find third parties to commercialize its products and this could adversely materially affect the financial condition and the results of operation of the Company. Even if the Company enters into commercial agreements with third parties for the commercialization of its products, those agreements contain termination provisions which, if exercised, could delay the commercialization of its products given that the Company has no sales force.

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 who 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 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 from the Company's business. 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 ability to defend against infringement by third parties of its intellectual property in the United States with respect to tesamorelin for the treatment of HIV-associated lipodystrophy depends, in part, on its commercial partner's decision to bring an action against such third party. Under the terms and conditions of the Collaboration and Licensing Agreement, the Company's commercial partner has the first right to bring action against a third party infringing on the Company's intellectual property with respect to tesamorelin for the treatment of HIV-associated lipodystrophy. Any delay in pursuing such action or in advising the Company that it does not intend to pursue the matter could decrease sales, if any, of tesamorelin for the treatment of HIV-associated lipodystrophy and adversely affect the Company's revenue.

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 easy for participants, including the Company, to determine 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 a 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 condition and results of operations 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 the Company is involved in or commercialize products that are prescribed by physicians to indirectly treat the indications the Company is developing products for. All of those products could be considered direct or indirect competitors of the Company's products, including 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 access to capital resources, research and development personnel and facilities that are superior to those of the Company. 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 could be commercialized more rapidly and effectively than the products of 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 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 improving such systems and attracting and retaining qualified personnel. Failure to manage growth effectively could have an adverse effect on the Company's business, results of operation 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 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, 2008, the Company reported losses of \$48,953,000. 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, 2008, it had an accumulated deficit of \$228,230,000. The Company does not expect to generate significant revenues in the immediate future and will continue to experience losses as it continues to incur operating expenses in connection with the preparation of its filing of a NDA with the FDA regarding the use of tesamorelin for the treatment of HIV-associated lipodystrophy and its efforts to obtain regulatory approvals for tesamorelin for the treatment of HIV-associated lipodystrophy in the USA and other countries. 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 obtain regulatory approval for the use of tesamorelin in the treatment of HIV-associated lipodystrophy in the United States and on the capacity of its commercial partner to commercialize tesamorelin for such indication. However, there is no guarantee that the Company will succeed in commercializing any of its products (including tesamorelin) and, accordingly, the Company 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 significant revenues and may need financing in order to continue its research and development of new products and its clinical programs, to develop its marketing and commercial capabilities and to meet its compliance obligations with 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 sale 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 the Company 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 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 results of operations 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 products. These agreements generally require that the third party pays to Theratechnologies certain amounts upon the attainment of various milestones and royalties on the sales of the developed product. There can be no guarantee that the Company will receive the payments described in those agreements since the development of products 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 a product 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 results of operations.

The Company may not achieve its publicly announced milestones on time.

From time to time, the Company publicly announces the timing of certain events to occur. These statements are forward-looking and are based on the best estimate of management 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 product, filing of a NDA (or the equivalent thereof), beginning 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 a commercial partner or any other event having the effect of delaying the timeline publicly announced. The Company's policy on forward-looking information consists of 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 condition or results of operations 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'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 filing of a NDA with the FDA, the commercialization of tesamorelin in HIV-associated lipodystrophy, the estimated costs of research and development programs and the liquidity needs to finance the Company's operations. 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, a delay in the filing of a NDA with the FDA, 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 or products.

Although the forward-looking information 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 it will not incur any delays in filing a NDA with the FDA, that the FDA will approve tesamorelin for the treatment of HIV-associated lipodystrophy, that the Company's business plan will not be substantially modified 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 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 results of operation. 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.

Further information on Theratechnologies

Further information on Theratechnologies, including the Company's Annual Information Form, is available on the SEDAR site at www.sedar.com.