

BUILDING A BUSINESS



LUC TANGUAY, M.Sc., CFA, President and CEO,
and THIERRY ABRIBAT, Ph.D., Chief Scientific Officer

Theratechnologies (TSX:TH) is a Canadian biopharmaceutical company engaged in the discovery and development of therapeutic peptides for endocrine and metabolic disorders. With 70 employees, growing expertise across the full range of biopharmaceutical activities, a number of strategic partners and a strong balance sheet, the Company is well positioned for growth.

Our current development programs target growth hormone replacement, osteoporosis and diabetes. The most advanced of these is ThGRF, a stabilized analogue of a natural peptide known as growth hormone-releasing factor. ThPTH is a transdermal formulation of parathyroid hormone for the treatment of osteoporosis and ThGLP-1 is a stabilized analogue of GLP-1, a multi-active hormone for diabetes.

2003 milestones

ThGRF Phase II program draws to a close – spanning three years, seven studies and almost 600 patients, our ThGRF Phase II program has pioneered the use of growth hormone-releasing factor in adult indications. In 2003, data was released for three studies and the final study of the program was launched in HIV-related lipodystrophy, a metabolic syndrome. As such, the way has been paved to move ThGRF into late-stage development.

A second product enters the clinic – our osteoporosis program advanced into clinical development in 2003. The aim is to develop a second-generation offering of the exciting new therapy, parathyroid hormone (PTH). Our product, being co-developed with ALZA Corporation, uses ALZA's Macroflux™ patch delivery system to provide a patient-friendly alternative to subcutaneous injection.

A third is on the way – using our proprietary LAP (Long Acting Peptides) technology, several GLP-1 analogues were created and evaluated as potential drug candidates in type II diabetes. Mid-year, one of them, ThGLP-1, was selected for development and preclinical testing is well underway.

Meanwhile, our future pipeline is building fast – our discovery team and the ExoPep discovery platform also delivered during 2003. One type II diabetes project attracted a research and licensing agreement with Johnson & Johnson, and three others are being evaluated as potential internal development candidates.

The scientific community is taking note – our expertise in peptide-based therapeutics is gaining recognition in the scientific community. In 2003, five poster presentations were given at the 85th Annual Meeting of the Endocrine Society, the largest and most active professional organization of endocrinologists in the world. The presentations updated attendees on research and clinical activities involving ThGRF, ThPTH and ThGLP-1. This event, and several others that we attended, allows us to work with internationally known experts in the field and expand our scientific network.

IN ENDOCRINOLOGY AND METABOLISM



APPLYING OUR EXPERTISE IN THERAPEUTIC PEPTIDES TO IMPROVE PEOPLE'S LIVES

The endocrine system is a collection of hormone-producing glands and cells that regulates our body functions including growth and metabolism. Metabolism can be viewed as the sum of two opposing forces: anabolism, which is a process involving the building, maintenance and renewal of body tissues, and catabolism, which is the destruction and breakdown of these tissues.

The key building blocks of the human body are complex molecules known as proteins, and several key hormones that play critical roles in the endocrine system and metabolism are small proteins known as peptides. At Theratechnologies, our focus is the discovery and development of therapeutic peptides for endocrine and metabolic disorders.

Growth hormone replacement therapy

Growth hormone (GH) controls fundamental activities in the body. In particular, through its effect on IGF-1 (insulin-like growth factor-1), GH influences anabolism and it also works directly to reduce fat accumulation. Growth hormone secretion, which is stimulated by the growth hormone-releasing factor (GRF), decreases as early as age 20 and drops by 60% at approximately 65 years of age. This can lead to loss of muscle, fat accumulation, bone demineralization and reduced capacity to regenerate tissue.

Theratechnologies has focused on the mechanism of action of GH for several years and has developed ThGRF, a stabilized analogue of GRF, because of its ability to induce growth hormone secretion in a safe, natural and pulsatile fashion. Potential indications for ThGRF are wasting (muscle depletion) associated with chronic disease, metabolic syndrome (fat accumulation and related complications) and growth hormone deficiency.

Osteoporosis

Osteoporosis is an age-related condition characterized by progressive bone loss, which leads to an increased susceptibility to fractures. Such fractures cause acute and chronic pain, respiratory and digestive difficulties and a marked change in height resulting from spine deformation.

An innovative osteoporosis therapy, already on the market, is parathyroid hormone or PTH, a regulator of the metabolism of calcium and phosphate in the body. To date, PTH, in injectable form, is the only approved therapy capable of promoting bone formation. Theratechnologies has teamed with ALZA Corporation, a leading drug delivery system company, to develop ThPTH, a transdermal formulation for PTH using ALZA's Macroflux™ patch technology.

Diabetes

Type II diabetes generally occurs after age 40. Patients with this disease suffer from insulin resistance or insufficient production of insulin, a hormone that allows glucose (sugar) to enter cells and be converted into energy. Diabetes can often lead to severe complications including heart disease, blindness and kidney disease.

One of the most promising potential new therapies for diabetes is glucagon-like peptide-1 or GLP-1. This hormone, produced by the intestine, induces insulin secretion in a glucose-dependent manner, controls gastric emptying and inhibits food intake. As natural GLP-1 degrades rapidly, Theratechnologies has discovered a stabilized analogue, ThGLP-1, that is being developed as a safe, patient-friendly product using the same Macroflux™ patch as ThPTH.

WITH THREE PRODUCTS IN DEVELOPMENT AND MORE TO COME



ANDRÉE LEFEBVRE, B.Sc., Director, Regulatory Affairs,
and KRISHNA PERI, Ph.D., Director, Discovery

| Product | ThGRF | ThPTH | ThGLP-1 |
|------------------------------------|--|--|--|
| DESCRIPTION | Analogue of growth hormone-releasing factor | Synthetic human parathyroid hormone | Analogue of glucagon-like peptide-1 |
| INDICATIONS | <ul style="list-style-type: none"> Wasting associated with chronic disease Metabolic syndrome Growth hormone deficiency (GHD) | Osteoporosis | Type II diabetes |
| CLINICAL STAGE | Phase II | Phase I | Preclinical |
| ANTICIPATED 2004 MILESTONES | <ul style="list-style-type: none"> Completion of Phase II program Launch of late-stage development | Phase I safety/calibration | <ul style="list-style-type: none"> CTA/IND filing Phase I program |
| CLINICAL ATTRIBUTES | <ul style="list-style-type: none"> Safe Builds muscle Reduces fat Lowers cholesterol Improves vigilance Bolsters immune system | Natural PTH has the ability to promote bone formation | Other GLP-1 analogues have demonstrated impressive efficacy |
| COMPETITIVE FEATURES | Stable compound with full amino acid sequence of natural peptide | Patient-friendly Macroflux™ patch delivery system | <ul style="list-style-type: none"> Stable compound with full amino acid sequence of natural peptide Patient-friendly Macroflux™ patch delivery system |
| BUSINESS OPPORTUNITIES | <ul style="list-style-type: none"> First-in-class (large unmet medical needs) Existing GHD market estimated at US \$1.7 B | <ul style="list-style-type: none"> Low clinical risk Potential for accelerated development Osteoporosis market estimated at US \$8.7 B | <ul style="list-style-type: none"> Second-generation compound with potential safety and delivery advantages Type II diabetes market estimated at US \$11.5 B |

Working with an extensive network of leading scientists and clinicians, the R&D team at Theratechnologies has accumulated valuable knowledge and experience in the field of therapeutic peptides. Armed with this expertise and two proprietary discovery platforms, a robust R&D pipeline is rapidly emerging.

Theratechnologies' LAP (Long Acting Peptides) technology eliminates a major obstacle to the development of natural peptides as drugs: their fragility. Despite their significant potential, peptides are often unstable in serum and therefore are unsuitable for clinical use. LAP increases the half-life of peptides by anchoring a hydrophobic moiety to the peptide, while preserving the natural amino acid sequence. The result is a stabilized compound that is efficacious and safe.

While LAP facilitates the development of therapeutics based on natural hormones, ExoPep technology provides for the rapid discovery of new therapeutic peptides that inhibit the ability of G protein-coupled receptors (GPCR) to transmit signals across the cell membrane. GPCRs are remarkably reliable as drug targets. In fact, approximately 60% of all currently available prescription drugs interact with these receptors.

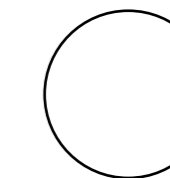
SUPPORTED BY STRONG PARTNERS AND SOUND FINANCES.



GENEVIÈVE DUBUC, B.Com., LL.L.,
Director, Legal Services and Intellectual
Property Management, and Secretary, with
TOBIE TRUDEL, M.Sc., CGA, Head, Investor
Relations and Strategic Analysis

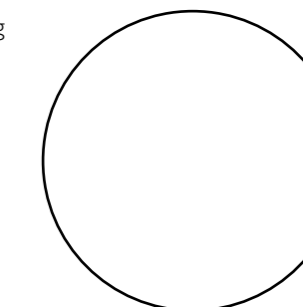
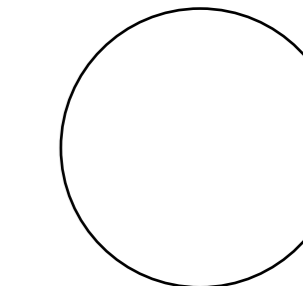
It takes more than great science to build a biopharmaceutical business and intellectual property is a key value-building asset. Theratechnologies has patents and patent applications to secure all of its products under development as well as their underlying technologies.

We also understand the need to maintain a sound financial position in our industry. In fact, a solid capital structure and a conservative approach to financing are hallmarks of Theratechnologies. Our partnership strategy not only highlights the value and potential of our therapeutic peptides but also serves to reduce business risk and speed the development of our Company.



For example, to overcome the risks associated with manufacturing peptides, we partnered with Swiss-based Bachem AG, a world leader in this field. Similarly, we have drug-delivery agreements with ALZA Corporation and development/license agreements with Johnson & Johnson and Sakai Chemical Industry Ltd. of Japan.

We believe that by combining all of these assets and capabilities, we can build a formidable business in endocrinology and metabolism.



FINANCIAL HIGHLIGHTS

| (For the years ended November 30, in thousands of dollars) | 2003 | 2002 | 2001 |
|--|------------|------------|------------|
| R&D expenditures | \$ 24,255 | \$ 26,613 | \$ 13,952 |
| Liquidities * | \$ 74,957 | \$ 105,042 | \$ 104,721 |
| Monthly burn rate ** | \$ (2,192) | \$ (1,884) | \$ (1,072) |
| Years of cash *** | 3 | 5 | 8 |
| | 2004 | 2003 | 2002 |
| Shares outstanding at February 28 (in thousands) *** | 35,461 | 30,791 | 30,711 |

* Includes cash, cash equivalents, bonds, tax credits and grants receivable.
** Represented by cash flows from operating activities and excluding changes in operating assets and liabilities.
*** Includes, for 2003, the impact of the February 2004 financing and is based on the current annual burn rate.

Building a business

in endocrinology and metabolism with three products in development and more to come supported by strong partners and sound finances.

ThGRF

- Safe
- Builds muscle
- Reduces fat
- Lowers cholesterol
- Improves vigilance
- Bolsters immune system

- CTA/IND filing
- Phase I program

ThGLP-1

ThPTH

- Low clinical risk
- Potential for accelerated development
- Osteoporosis market estimated at US \$8.7 B





2003 Annual Report

Theratechnologies (TSX:TH) is a Canadian biopharmaceutical company engaged in the discovery and development of therapeutic peptides for endocrine and metabolic disorders. With 70 employees, growing expertise across the full range of biopharmaceutical activities, a number of strategic partners and a strong balance sheet, the Company is well positioned for growth.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements which reflect the Company's current expectations regarding future events. Actual events or future results may differ materially from the Company's expectations and the Company does not undertake to update this information. Investors are cautioned against placing undue importance on forward-looking information contained herein and should consult the more exhaustive analysis of risks and uncertainties connected to the businesses of the Company which appears on pages 11 and 12 of this report.

SELECTED FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF EARNINGS

YEARS ENDED NOVEMBER 30

(in thousands of dollars, except per share amounts)

| | 2003 | 2002 | 2001 |
|---|-------------|-------------|-------------|
| Revenues | \$ 4,006 | \$ 8,571 | \$ 4,498 |
| Research and development expenditures, before tax credits and grants | \$ 24,255 | \$ 26,613 | \$ 13,952 |
| Operating loss before restructuring costs, gains and share of loss of Andromed | \$ (28,295) | \$ (24,551) | \$ (13,846) |
| Gains on investments in companies and gains on dilution | \$ 772 | \$ 8,488 | \$ 40,578 |
| Net (loss) earnings | \$ (32,770) | \$ (14,336) | \$ 26,705 |
| (Loss) earnings per share | \$ (1.06) | \$ (0.47) | \$ 0.97 |
| Diluted (loss) earnings per share | \$ (1.06) | \$ (0.47) | \$ 0.94 |

CONSOLIDATED BALANCE SHEETS

AS AT NOVEMBER 30

(in thousands of dollars)

| | | | |
|---|------------|------------|------------|
| Cash position (cash, cash equivalents and bonds) | \$ 73,840 | \$ 102,907 | \$ 103,270 |
| Tax credits and grants receivable | \$ 1,117 | \$ 2,135 | \$ 1,451 |
| Investments in companies | \$ 2,395 | \$ 3,517 | \$ 16,782 |
| Total assets | \$ 94,592 | \$ 140,498 | \$ 142,157 |
| Warrants | \$ – | \$ – | \$ 17,550 |
| Capital stock | \$ 139,791 | \$ 139,223 | \$ 108,618 |
| Shareholders' equity | \$ 70,434 | \$ 102,636 | \$ 88,107 |

| | 2004 | 2003 | 2002 |
|--|--------|--------|--------|
| Shares outstanding at February 28 (in thousands) | 35,461 | 30,791 | 30,711 |

MESSAGE TO SHAREHOLDERS

This letter marks the tenth anniversary of Theratechnologies and the close of a highly productive year in terms of building our business.

Long-standing shareholders will recall that 10 years ago, this page described a widely diversified portfolio of therapeutics in four different fields, not to mention additional activities in dentistry, veterinary medicine, diagnostics and software development. Those were heady days for the Company and for our industry as a whole, but how could all of that be managed? Not surprisingly, we've changed.

In 1997, the Company began the process of paring down its activities to a more manageable portfolio, choosing to focus on therapeutics and in particular the development of ThGRF, our growth hormone-releasing factor, and Theralux™ photodynamic therapy for the treatment of bone marrow cancers. In parallel, spinning out some of the other projects as subsidiaries provided for their continued development while creating value for our shareholders. In 2000, we narrowed our focus again to concentrate on therapeutic peptides. This refinement led to the creation in 2001 of Celmed BioSciences, a freestanding subsidiary with a mandate to further develop Theralux™, among others.

By the start of 2002, Theratechnologies was tightly focused on therapeutic peptides, and we then decided to apply this expertise in the field of endocrinology and metabolism. This has paid off handsomely in terms of building our business over the past two years, but it must be acknowledged that the returns to shareholders have not kept pace. Some of the discrepancy can be attributed to the stock market performance as a whole, and some can be attributed to the recent disappointment we experienced in one study of the ThGRF clinical development program. Regardless, we believe that there is tremendous value in Theratechnologies, and we have stepped up our investor relations activities significantly in order to make our story better known to investors.

That story begins with the progress we made in 2003. With two key product candidates now in the clinic – one of which should enter late-stage development later this year – and with a meaningful and growing pipeline, we feel that we have entered the year 2004 with a much stronger foundation for growth and success in our therapeutic field.

The year began with the announcement of positive results for a safety study testing ThGRF in aged, obese, and type II diabetic patients. These results were critical to the positioning of our product, which is growth-hormone replacement therapy without the usual side effects seen with recombinant human growth hormone.

In October, we reported Phase II results for a study involving patients suffering from wasting associated with chronic obstructive pulmonary disease (COPD). It is estimated that more than five million patients worldwide suffer from a severe loss of muscle mass, or wasting, associated with a chronic disease. Examples are COPD, chronic renal failure and congestive heart failure. The prognosis for wasting patients is usually very bad. In fact, studies have shown that their involuntary weight loss or loss in lean body mass are independent predictors of mortality. There is a very large unmet medical need for an anabolic treatment for these patients that is both safe (because these patients are usually older and in poor clinical condition), and capable of preventing muscle loss or increasing muscle mass to help them fight against their disease and survive longer.

Our study in COPD wasting showed positive effects on body composition (increased muscle and decreased fat) across the entire study population, as well as a series of converging positive findings in functional measures, and a very good safety profile. We concluded at the time that ThGRF could move into late-stage clinical development. Since then, we have consulted our international experts further and we continue to be encouraged by what we are hearing; so this remains a very attractive option for which we are actively preparing a regulatory dossier.



LUC TANGUAY

A. JEAN DE GRANDPRÉ

In December 2003, we experienced a setback in the development of ThGRF for hip fracture patients. The results of a Phase II clinical trial did not demonstrate improvement in functional recovery following hip fracture surgery among elderly patients. Analysis of the results revealed that the patients were not responsive to the treatment as they were in a very intense and acute catabolic state in the first few weeks following surgery.

The dramatically different hip fracture and COPD wasting results illustrate why we undertook such a wide-ranging Phase II program for ThGRF. When you are developing a first-in-class product, you have to cast a very wide net in order to determine in which indications it works, and where the limitations are.

Our Phase II ThGRF clinical study in HIV-related lipodystrophy is currently underway. This is a metabolic syndrome that affects patients who are otherwise well controlled for HIV, and is characterized by abdominal fat accumulation, increased cholesterol levels and glucose intolerance. Those afflicted are more prone to developing type II diabetes and have an increased risk of cardiovascular complications. Unlike COPD wasting, where we face the challenge of being pioneers, in HIV-lipodystrophy there are some clinical precedents using recombinant growth hormone with encouraging results. We expect to announce the outcome of this trial in the coming months and if the data are positive we will have a second potential development path for ThGRF.

A third potential indication for ThGRF is growth hormone deficiency. This is a billion dollar market and, based upon current analysis, we believe that our product may be able to secure an important share of this business as well.

Our second product in clinical trials, ThPTH for osteoporosis, is currently in Phase I. In conjunction with ALZA Corporation, we are combining parathyroid hormone, or PTH, with ALZA's Macroflux™ transdermal patch. PTH, in injectable form, has shown impressive efficacy in promoting bone formation and our goal is to create a more patient-friendly alternative to a daily injection. We are upbeat about the potential for this project and expect results from the first Phase I trial during the first half of 2004.

We also plan to initiate clinical development of ThGLP-1 in diabetes later this year. ThGLP-1 is a GLP-1 (glucagon-like peptide-1) analogue, which was created using our Long Acting Peptides (LAP) technology. Because our compound contains the same sequence of amino acids as natural GLP-1, we think that it could have a safety advantage over other compounds currently in development. So, here again, there is exciting potential.

MESSAGE TO SHAREHOLDERS

Another key milestone in 2003 was our research collaboration and licensing agreement in diabetes with Johnson & Johnson. We view this as a significant endorsement of the value of our ExoPep technology and, needless to say, we are delighted to be working with such a well-respected company.

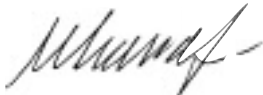
Our subsidiary, Celmed BioSciences, streamlined operations in 2003 and intends to narrow its therapeutic focus to hematology/oncology in order to further strengthen its business. This is already starting to pay off, as evidenced by the collaboration agreement announced in December with the National Institutes of Health in graft-versus-host disease.

Throughout all of this activity, we have maintained a very solid financial footing. Including the \$15.7 million post-year-end financing, we have close to three years of cash on hand as this letter is being written. With a very full clinical program in the months ahead and a lot of upside potential, this financing provides a welcome margin of safety against unforeseen financial market fluctuations.

In closing, we would like to sincerely thank our employees, the members of our board of directors, our scientific advisory board members and our collaborators around the globe for all of their efforts in 2003. It really was a year of remarkable progress for our Company.

There is much more to come, with another busy year in the clinic in 2004, and it will start very soon with the Phase II lipodystrophy results. By this time next year, we hope to have a late-stage product and two other clinical programs. We will also be working hard to expand our pipeline with additional candidates from discovery.

We are determined to build a leading business in endocrinology and metabolism, and deliver value to our shareholders. We are optimistic about our prospects to achieve both.



A. Jean de Grandpré
Chairman of the Board

February 28, 2004



Luc Tanguay
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

The following discussion and analysis provides the management's point of view of the financial position and of the results of operations of Theratechnologies Inc. ("Theratechnologies" or the "Company") and its subsidiary, Celmed BioSciences Inc. ("Celmed"), on a consolidated basis and a comparison of the financial position and operating results for the twelve-month periods ended November 30, 2003 ("2003") and November 30, 2002 ("2002"). This information is dated February 4, 2004 and should be read in conjunction with the Consolidated Financial Statements and accompanying notes, which have been prepared by management in conformity with Canadian generally accepted accounting principles.

OVERVIEW

Theratechnologies is a Canadian biopharmaceutical company engaged in the discovery and development of therapeutic peptides in the field of endocrinology and metabolism. The Company has and is developing a portfolio of peptides at various stages of development. Its subsidiary, Celmed BioSciences, develops photodynamic-based therapies targeting niche markets in hematology/oncology.

Theratechnologies' research and development (R&D) activities focus on three main programs: growth hormone replacement therapy using ThGRF, a growth hormone-releasing factor analogue, osteoporosis and diabetes. Overall, the R&D programs reached several milestones in 2003.

ThGRF is Theratechnologies' most clinically advanced product. In 2003, Theratechnologies announced results for three Phase II studies, one safety study in diabetic patients and two studies testing ThGRF's effect in patients suffering from wasting secondary to hip fracture and to chronic obstructive pulmonary disease (COPD). Except for the hip fracture study, these studies produced encouraging results. In addition, all of the studies confirmed that ThGRF can be administered safely to adults, including diabetic patients. Finally, Theratechnologies launched a new Phase II study in 2003 evaluating ThGRF's lipolytic effects in patients suffering from HIV-related lipodystrophy. Enrolment was completed and results are expected in 2004. The Company is currently preparing its regulatory strategy to move ThGRF into late-stage development.

Theratechnologies' osteoporosis program advanced into clinical development in December 2003. The aim is to develop a second-generation, transdermal formulation of parathyroid hormone (PTH), a new therapy for osteoporosis. Theratechnologies' product, ThPTH, is being co-developed with ALZA Corporation, using ALZA's Macroflux™ patch delivery system to offer a patient-friendly alternative to subcutaneous injection.

In 2003, Theratechnologies considerably expanded its diabetes program. The most advanced compound is ThGLP-1, a stabilized glucagon-like peptide-1 analogue, presenting a mechanism of action that could prevent hypoglycemic complications. Several GLP-1 analogues, that were created using Theratechnologies' proprietary LAP (Long Acting Peptides) technology, were evaluated as potential drug candidates in type II diabetes in 2003. One of these, ThGLP-1, was selected for development and preclinical testing is now underway. The Company is concurrently working on five other compounds in type II diabetes. One of them, created with the ExoPep platform, is the subject of a research and licensing agreement with Johnson & Johnson Pharmaceutical Research & Development which provides for research and regulatory milestone payments as well as royalties. All development and marketing activities will be conducted by Johnson & Johnson.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

CELMED BIOSCIENCES INC.

In March 2003, Celmed's board of directors approved a strategic reorientation to intensify clinical development activities with regard to its technological platforms: Theralux™, designed to treat certain cancers in hematology/oncology and Neuro, for the treatment of Parkinson's disease. This restructuring was done in order to prioritize the advancement of the clinical development program.

Since then, Celmed has made progress with its Theralux™ photodynamic therapy. In April, Theralux™ was granted orphan drug status by the U.S. Food and Drug Administration (FDA) for chronic myeloid leukemia (CML). In July 2003, Celmed announced positive results for its Phase I/II study on CML. The study established that Theralux™ significantly reduced the absolute number of cancer cells in the graft, while preserving an adequate number of progenitor cells for sustained engraftment. The study also demonstrated that the Theralux™-treated graft can be administered safely to the patient. Finally, in December 2003, Celmed announced a collaboration agreement with the National Institutes of Health in graft-versus-host disease.

Subsequent to November 30, 2003, to further strengthen its business, Celmed intends to narrow its therapeutic focus to hematology/oncology, and the board of directors of Celmed has mandated its management to explore, in the first half of 2004, various strategic options for its Neuro technology targeting Parkinson's.

SUMMARY OF OPERATING RESULTS

REVENUES

Theratechnologies' consolidated revenues for the year ended November 30, 2003, totaled \$4,006,000. In 2002, revenues reached \$8,571,000, principally due to the inclusion of an upfront payment of \$3,255,000 recognized as revenue following the signature of a license agreement for the development and commercialization of various applications of ThGRF in Japan. In addition, interest revenues were lower in 2003 because of the Company's use of cash to fund its activities.

R&D ACTIVITIES

Consolidated research and development (R&D) expenditures, before tax credits and grants, totaled \$24,255,000 for the year ended November 30, 2003, compared to \$26,613,000 in 2002. In 2003, Theratechnologies and Celmed invested \$16,732,000 and \$7,523,000 respectively, amounts which were substantially unchanged from 2002.

TAX CREDITS AND GRANTS

Consolidated tax credits and grants totaled \$1,476,000 for the year ended November 30, 2003, compared to \$2,981,000 for the same period in 2002. The variance is mainly due to the expiration early in 2003 of a grant from Technology Partnerships Canada to Celmed for its cell therapy program.

OTHER EXPENSES

General and administrative expenses, selling and market development expenses, patents and amortization of other assets reached \$9,522,000 for the year ended November 30, 2003, compared to \$9,490,000 in 2002. The Company maintained these expenses at a stable level, amounting to 28.2% of costs and expenses before tax credits and grants, compared to 26.3% in 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

RESTRUCTURING COSTS AND IMPAIRMENT OF DEPRECIABLE ASSETS

Celmed's strategic reorientation, launched in March 2003, to focus on its clinical activities, generated certain non-recurring costs recorded under "Restructuring costs and impairment of depreciable assets". These costs totaled \$2,190,000 at November 30, 2003 and include severance payments to employees and related costs, a decrease in intangible assets and a charge for write downs of some equipment, leasehold improvements and related charges. No additional costs are expected in relation to this matter.

Subsequent to November 30, 2003, Celmed examined the relevance of pursuing its activities targeting the treatment of Parkinson's disease. Celmed's management is exploring different options with respect to this technology. Celmed recorded a provision relating to the value of this technology (refer to note 7 (B) to the consolidated financial statements). Net of future income taxes and non controlling interest, the result of this decrease in value on Theratechnologies' earnings is \$6,095,000, without any effect on cash.

NET RESULTS

For the year ended November 30, 2003, the Company recorded an operating loss of \$28,295,000, before restructuring costs and impairment of depreciable assets, proportionate share in loss of a company under significant influence, and gains on investments in companies and gains on dilution, compared to a loss of \$24,551,000 in 2002. Principally due to Celmed's restructuring costs and impairment of depreciable assets, as well as gains on investments in companies and gains on dilution in 2002, the net loss reached \$32,770,000 in 2003, compared to \$14,336,000 in 2002.

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 dollars,
except per share amounts)

| | 2003 | | | | 2002 | | | |
|-------------------|------------|------------|------------|-------------|------------|-----------|------------|------------|
| | Q1 | Q2 | Q3 | Q4* | Q1 | Q2 | Q3 | Q4 |
| Revenues | \$ 1,140 | \$ 1,028 | \$ 941 | \$ 897 | \$ 4,548 | \$ 1,436 | \$ 1,381 | \$ 1,206 |
| Net loss | \$ (5,604) | \$ (6,925) | \$ (6,342) | \$ (13,899) | \$ (1,631) | \$ (65) | \$ (4,833) | \$ (7,807) |
| Basic and diluted | | | | | | | | |
| loss per share | \$ (0.18) | \$ (0.22) | \$ (0.21) | \$ (0.45) | \$ (0.05) | \$ (0.00) | \$ (0.16) | \$ (0.25) |

*See "Restructuring costs and impairment of depreciable assets" above.

FOURTH QUARTER

Theratechnologies' consolidated revenues for the three month period ended November 30, 2003 amounted to \$897,000, compared to \$1,206,000 for the same period in 2002. Revenues for 2003 were lower due to the Company's reduced cash position.

Consolidated research and development (R&D) expenditures, before tax credits and grants, totaled \$6,918,000 for the fourth quarter of 2003, relatively the same amount as in 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

General and administrative expenses, selling and market development expenses, patents and amortization of other assets reached \$2,391,000 for the fourth quarter, and were kept at approximately the same level as in 2002.

The Company recorded a provision relating to the value of Celmed's technology in the field of neurology. For further information, refer to "Restructuring costs and impairment of depreciable costs".

Consequently, for the fourth quarter ended November 30, 2003, the Company recorded an operating loss of \$7,955,000, before restructuring costs and impairment of depreciable assets, proportionate share in loss of a company under significant influence, and gains on investments in companies and gains on dilution, compared to a loss of \$8,645,000 in 2002. Principally due to the provision referred to above, the net loss for the fourth quarter totaled \$13,899,000, compared to \$7,807,000 in 2002.

LIQUIDITY AND CAPITAL RESOURCES

The Company's basic capital needs consist of financing its research and development activities, 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 non-core technologies.

Theratechnologies maintained an adequate cash position in 2003. At November 30, 2003, liquidities (cash and cash equivalents as well as bonds), amounted to \$73,840,000 and tax credits and grants receivable amounted to \$1,117,000, for a total of \$74,957,000, compared to \$105,042,000 at November 30, 2002. Liquidities, tax credits and grants were \$43,226,000 for Theratechnologies and \$31,731,000 for Celmed. Celmed's liquidities are restricted to the support of its own activities.

The Company has lines of credit of \$3,600,000, namely \$1,800,000 for Theratechnologies and \$1,800,000 for Celmed, dedicated to their respective short-term capital needs. As at November 30, 2003, letters of credit amounting to \$1,024,000 were issued under their terms.

The Company invests its available cash in fixed income instruments which have varying terms to maturity from municipal and paragonovernmental bodies as well as from companies with high credit ratings and which are readily convertible into cash. These instruments are selected with regard to the expected timing of expenditures and prevailing interest rates.

For the year ended November 30, 2003, the burn rate, represented by cash flows from operating activities and excluding changes in operating assets and liabilities, was \$26,302,000, that is \$17,041,000 for Theratechnologies and \$9,261,000 for Celmed.

At February 4, 2004, the number of shares issued and outstanding was 30,918,631 common shares, while outstanding options granted under the stock option plan were 2,701,500. In addition, 4,880,000 warrants were outstanding.

The Company believes that its cash position, as well as that of its subsidiary, Celmed, will be sufficient to finance their respective operations and capital needs for at least two years. However, considering the risks and uncertainties outlined below, the Company and/or Celmed, may be required to secure further financing to support their operations in the future.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

CONTRACTUAL OBLIGATIONS

As at November 30, 2003, Theratechnologies' commitments are principally for obligations under operating leases related to its premises (refer to note 10 to the consolidated financial statements). Payments under operating lease agreements are presented below. The Company is not involved in any off-balance sheet financing and did not have any purchase commitments as at November 30, 2003.

Payments under operating leases:

| | |
|----------------|----------|
| 2004 | \$ 1,152 |
| 2005 | 969 |
| 2006 | 987 |
| 2007 | 999 |
| 2008 and after | 3,125 |
| Total | \$ 7,232 |

SUBSEQUENT EVENTS

On February 4, 2004, Theratechnologies entered into an agreement with a syndicate of underwriters to issue and sell 3,950,000 common shares of its share capital at a price of \$3.45 per share. Gross proceeds of this transaction are \$13,628,000. Share issue costs are estimated at \$1,018,000. The Company has also granted the underwriters an option to purchase an additional 592,500 common shares, equal to 15% of the offering, for purposes of covering over-allotments and for market stabilization. On a *pro forma* basis, excluding the underwriters' option, the Company's liquidities and grants receivable would have amounted to \$87,567,000, that is \$55,836,000 for Theratechnologies and \$31,731,000 for Celmed.

In January and February 2004, adjustment clauses related to the participation of institutional investors in Celmed decreased Theratechnologies' ownership in Celmed from 61.6% to 56.1%. Consequently, the amount of \$3,762,000, included in "Deferred gains", will be reclassified under "Non controlling interest" in 2004.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with 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 we believe are critical and require the use of complex judgment in their application.

PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS

Property, plant and equipment and other assets are stated at cost. Depreciation and amortization is provided using methods and annual rates which are expected to reflect their economic and useful life. The Company tests the assets for impairment each time events or changes of situation indicate that the carrying value of an asset may not be recoverable. Depreciation is recognized when estimates of non-discounted future cash flows that should result from the use of the asset and its contingent disposal are less than its carrying value. As previously mentioned, in 2003, the Company recorded a provision in connection with Celmed's intellectual property related to the field of neurology.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

INCOME TAXES

Income taxes are accounted for by 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 and development of a tax planning strategy. As at November 30, 2003, the Company has determined that a tax valuation allowance for the full amount of future tax assets was necessary.

GOVERNMENT CONTRIBUTION

The government contribution consists of research tax credits and grants and is applied against related expenses and cost of net asset acquired. Tax credits are available based on eligible research and development expenses consisting of direct and indirect expenditures and including reasonable allocation of overhead expenses. Grants are subject to compliance with terms and conditions of the related agreements. The government contribution 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.

RECENT ACCOUNTING PRONOUNCEMENTS

IMPAIRMENT AND DISPOSAL OF LONG-LIVED ASSETS

The Company will adopt in 2004 the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3063, Impairment or Disposal of Long-Lived Assets and revised Section 3475, Disposal of Long-Lived Assets and Discontinued Operations. These two Sections establish standards for the recognition, measurement and disclosure of the impairment of long-lived assets held for use by the Company. It requires that an impairment loss be recognized when the carrying amount of an asset to be held and used exceeds the sum of the undiscounted cash flows expected from its use and disposal. The impairment recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value.

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The Company will apply in 2004 the amendments of CICA Handbook Section 3870 whereby stock options granted to employees will be accounted for by using the fair value method. As a result, compensation expense for stock options granted to employees will be recognized. Transitional provisions to these standards have been released to permit either retroactive (with or without restatement) or prospective application of the recognition provisions to awards not previously accounted for at fair value. The Company has not yet determined whether retroactive or prospective application will be applied.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

FINANCIAL INSTRUMENTS

The Company owns financial assets and liabilities in foreign currency. However, the value of these assets and liabilities is low and, consequently, the risk related to foreign currency fluctuations is practically nil.

RISKS AND UNCERTAINTIES

RESEARCH

The Company conducts research activities in order to feed its therapeutic peptide pipeline. Although the Company considers that it possesses adequate resources in this regard, research may prove unsuccessful, and therefore, may not lead to the advancement of new molecules to a further development stage.

PATENTS

Patents provide to their owners the exclusive right to use and commercialize the claimed inventions in the given territories. The Company's success will depend in part on its ability to obtain patents, maintain their registration and defend their validity. However, there is no guarantee that any patent granted to the Company will bring it any competitive advantage that will not be contested by third parties, or that the patents of competitors will not be detrimental to the Company's commercial activities. Furthermore, competitors may independently develop products similar to the Company's or copy the Company's products by circumventing the Company's patents.

PRECLINICAL AND CLINICAL STUDIES

The Company is presently conducting various preclinical and clinical studies for its products. These studies may take several years to complete and, thus, require considerable resources from the Company. Obtaining positive, timely and conclusive results from these studies is an essential condition of regulatory approval and, therefore, product commercialization. There can be no assurance of satisfactory results and the lack thereof may considerably hinder the development, approval and commercialization of the Company's products.

REGULATORY APPROVALS

In order to commercialize its products and, hence, generate revenues, the Company must first obtain the approval of regulatory agencies in each of the countries where it wishes to sell its products. The Company's products may not meet the safety and effectiveness criteria established by the various agencies and, consequently, may not obtain required approvals for commercialization for any or all targeted indications.

COMMERCIALIZATION

Once commercialized, the Company's products may potentially compete with existing products on the market. Various intermediaries in the healthcare sector, such as those who may prescribe or dispense the new drugs commercialized by the Company and the parties responsible for drug reimbursement, may select other treatments than those offered by the Company. Furthermore, the prices of medical products are increasingly being regulated. Therefore, there can be no assurance that the Company will be able to maintain price levels sufficient for the realization of an appropriate return on the Company's investment in product development.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

PRODUCT LIABILITY

A risk of product liability claims is inherent in the development of human therapeutic products. Product liability insurance is expensive and its coverage is limited. 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.

CAPITAL RESOURCES

In order to achieve its long-term development and commercialization strategy, the Company may need to raise additional capital through share issues, grants, collaboration or partnership agreements that would allow the Company to finance its activities, in whole or in part. Nothing guarantees that additional funds will be available or that they may be acquired according to acceptable terms and conditions, allowing the Company to successfully market its products. If adequate funding is not available, the Company may be required to delay, reduce, or eliminate one or more of its research programs.

COMPETITION

The Company is subject to competition from pharmaceutical companies, biotechnology companies, academic and research institutions as well as government agencies which concentrate in the same areas as the Company. Some have greater capital resources, research and development staffs and facilities superior to the Company's and may be able to develop and commercialize more rapidly alternative forms of medical treatment, which would potentially compete with the products of the Company.

HUMAN RESOURCES

Members of management and scientists are highly qualified individuals who are essential to operations and the successful research and development of the Company's products. Loss of services from a large part of this group or the inability of the Company to attract highly qualified personnel could compromise the Company's growth.

VOLATILITY OF SHARE PRICE

The market price of the Company's 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 shares. In recent years, the stocks of many biopharmaceutical companies have experienced extreme price fluctuations, which have been 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.

ADDITIONAL INFORMATION ABOUT THERATECHNOLOGIES

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

MANAGEMENT'S CERTIFICATION OF FINANCIAL STATEMENTS

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 have financial skills and at least one member has financial expertise. 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 each party is properly discharging its 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.



Luc Tanguay
President and Chief Executive Officer

Montréal, Canada

February 4, 2004



Marie-Noël Colussi
Vice President, Finance

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Theratechnologies Inc. as at November 30, 2003 and 2002 and the consolidated statements of earnings, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada

February 4, 2004

CONSOLIDATED BALANCE SHEETS

NOVEMBER 30

(in thousands of dollars)

2003

2002

ASSETS

CURRENT ASSETS:

| | | |
|--|------------------|------------|
| Cash and cash equivalents | \$ 53 | \$ 196 |
| Bonds | 39,303 | 39,098 |
| Accounts receivable | 463 | 608 |
| Tax credits and grants receivable | 1,117 | 2,135 |
| Research supplies | 990 | 1,993 |
| Prepaid expenses | 597 | 543 |
| | 42,523 | 44,573 |
| Bonds | 34,484 | 63,613 |
| Investments in companies (note 4) | 2,395 | 3,517 |
| Property, plant and equipment (note 5) | 5,324 | 7,549 |
| Other assets (note 6) | 9,866 | 21,246 |
| | \$ 94,592 | \$ 140,498 |

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

| | | |
|--|---------------|----------|
| Accounts payable and accrued liabilities | \$ 7,132 | \$ 9,161 |
| Deferred gains (note 15) | 3,762 | 3,762 |
| Future income taxes (note 9) | — | 3,148 |
| Non-controlling interest | 13,264 | 21,791 |
| Shareholders' equity: | | |
| Capital stock (note 8) | 139,791 | 139,223 |
| Contributed surplus | 108 | 108 |
| Deficit | (69,465) | (36,695) |
| | 70,434 | 102,636 |

Commitments (note 10)

Subsequent events (note 15)

\$ 94,592 \$ 140,498

See accompanying notes to consolidated financial statements.

On behalf of the Board:



PAUL POMMIER
DIRECTOR



ANDRÉ DELAMBRE
DIRECTOR

CONSOLIDATED STATEMENTS OF EARNINGS

YEARS ENDED NOVEMBER 30

(in thousands of dollars, except per share amounts)

| | 2003 | 2002 |
|--|--------------------|-------------|
| Revenues: | | |
| Royalties, technologies and other | \$ 197 | \$ 3,495 |
| Interest | 3,809 | 5,076 |
| | 4,006 | 8,571 |
| Costs and expenses: | | |
| Research and development | 24,255 | 26,613 |
| Tax credits and grants | (1,476) | (2,981) |
| | 22,779 | 23,632 |
| General and administrative | 7,329 | 7,160 |
| Selling and market development | 769 | 1,046 |
| Patents and amortization of other assets | 1,424 | 1,284 |
| | 32,301 | 33,122 |
| Operating loss before undernoted items | (28,295) | (24,551) |
| Restructuring costs and impairment of depreciable assets (note 7) | (15,160) | - |
| Proportionate share in loss of company under significant influence | (1,762) | (1,489) |
| Gains on investments in companies and gains on dilution (notes 4 and 6) | 772 | 8,488 |
| Loss before income taxes and non-controlling interest | (44,445) | (17,552) |
| Foreign income taxes | - | (326) |
| Future income taxes recovery | 3,148 | 40 |
| Non-controlling interest | 8,527 | 3,502 |
| Net loss | \$ (32,770) | \$ (14,336) |
| Basic and diluted net loss per share (note 8 (f)) | \$ (1.06) | \$ (0.47) |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF DEFICIT

YEARS ENDED NOVEMBER 30, 2003 AND 2002

(in thousands of dollars)

| | 2003 | 2002 |
|----------------------------|--------------------|-------------|
| Deficit, beginning of year | \$ (36,695) | \$ (20,511) |
| Net loss | (32,770) | (14,336) |
| Share issue costs | - | (1,848) |
| Deficit, end of year | \$ (69,465) | \$ (36,695) |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED NOVEMBER 30
(in thousands of dollars)

| | 2003 | 2002 |
|--|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (32,770) | \$ (14,336) |
| Adjustments for: | | |
| Depreciation and write-down of property, plant and equipment | 3,490 | 1,380 |
| Depreciation and write-down of other assets | 13,663 | 1,107 |
| Amortization of deferred gains | - | (221) |
| Proportionate share in loss of company under significant influence | 1,762 | 1,489 |
| Gains on investments in companies and gains on dilution | (772) | (8,488) |
| Non-controlling interest | (8,527) | (3,502) |
| Future income taxes recovery | (3,148) | (40) |
| | (26,302) | (22,611) |
| Change in operating assets and liabilities: | | |
| Interest receivable on bonds | 576 | (1,203) |
| Accounts receivable | 145 | 105 |
| Tax credits and grants receivable | 1,018 | (684) |
| Research supplies | (981) | (844) |
| Prepaid expenses | (54) | 128 |
| Accounts payable and accrued liabilities | (1,778) | 1,461 |
| | (1,074) | (1,037) |
| | (27,376) | (23,648) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Share issue | 568 | 30,605 |
| Share issue costs | - | (1,848) |
| | 568 | 28,757 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Addition to property, plant and equipment | (1,502) | (6,280) |
| Disposal of property, plant and equipment | 25 | - |
| Addition to other assets | (338) | (472) |
| Acquisition of bonds | (16,716) | (49,523) |
| Disposal of bonds | 45,064 | 48,844 |
| Disposal of shares in company | 132 | 77 |
| | 26,665 | (7,354) |
| Net change in cash and cash equivalents | (143) | (2,245) |
| Cash and cash equivalents, beginning of year | 196 | 2,441 |
| Cash and cash equivalents, end of year | \$ 53 | \$ 196 |

See note 14 for supplemental cash flow information.
See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

1. ORGANIZATION AND BUSINESS ACTIVITIES

The Company is incorporated under Part 1A of the *Québec Companies Act*. The Company's principal business activity is to carry out research and development in the field of healthcare and biotechnology. The Company's research focuses on the development of therapeutic peptides targeting endocrine and metabolic disorders.

2. SIGNIFICANT ACCOUNTING POLICIES

A) CONSOLIDATION AND INVESTMENTS

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

The investment in Andromed Inc. ("Andromed"), a company under significant influence, has been accounted for by the equity method. The investment in Ecopia BioSciences Inc., a portfolio investment, is recorded at cost.

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

Stock options awarded to non-employees are accounted for using the fair value method. No compensation expense for stock options granted to employees is recognized unless the exercise price is inferior to the market price at the date of grant. However, *pro forma* disclosure of net loss and net loss per share is provided as if these awards were accounted for by the Company using the fair value method. Consideration paid on the exercise of stock options is credited to share capital.

C) CASH EQUIVALENTS

Cash equivalents are restricted to investments that are readily convertible into cash, having a term to maturity not exceeding three months and whose value is not likely to change significantly. These investments are recorded at cost. As at November 30, 2003 and 2002, there were no cash equivalents.

D) BONDS

Bonds that are classified in current assets based on their maturity date or on management's estimate of cash flow requirements for the next year are stated at the lower of cost and fair market value. Bonds that are classified in long-term assets are stated at cost. These investments, which are made with institutions having a high credit rating, are readily convertible into cash.

E) PROPERTY, PLANT AND EQUIPMENT

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

| Asset | Method | Rate/period |
|--------------------------------|--|----------------------|
| Computer equipment | Declining balance | 50% |
| Laboratory equipment | Declining balance and straight-line | 20% – 30% 5 years |
| Office equipment and furniture | Declining balance | 20% |
| Leasehold improvements | Straight-line | Term of lease |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

E) PROPERTY, PLANT AND EQUIPMENT (continued)

The Company tests the assets for impairment each time events or changes of situation indicate that the carrying value of an asset may not be recoverable. Depreciation is recognized when estimates of non-discounted future cash flows that should result from the use of the asset and its contingent disposal are less than its carrying value (see note 7).

F) RESEARCH AND DEVELOPMENT

Research expenditures, net of related research tax credits and grants, are charged to earnings in the year in which they are incurred. Development expenditures, if any, are capitalized when they meet the appropriate criteria for capitalization in accordance with generally accepted accounting principles. As at November 30, 2003 and 2002, no development expenditures were capitalized.

G) OTHER ASSETS

Other assets consist, namely, of the values related to intellectual property, deferred development costs and patent costs.

The value related to intellectual property is amortized over a period of 2 to 20 years.

The cost of the patents does not necessarily reflect their present or future value and the amount ultimately recoverable is dependent upon the successful commercialization of the related products. Amortization of patent costs is calculated over their estimated useful lives, varying from 5 to 20 years, using the straight-line method.

Deferred development costs are amortized using the straight-line method over a period of 2 to 5 years, beginning in the year of commercialization.

Management reviews unamortized costs annually or each time events or changes of situation indicate that the carrying value may not be recoverable, and records any impairment in the carrying value in the year when the loss occurs.

An impairment in value is recorded if undiscounted future cash flow estimates that should result from the use of an asset and its eventual disposal is less than the carrying value.

H) DEFERRED GAINS

Deferred gains are represented by the gain on dilution related to the interest in Celmed BioSciences Inc. ("Celmed"). The recognition in earnings is subject to realization of adjustment clauses provided for in the Celmed's charter (see note 15).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

I) INCOME TAXES

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

J) EARNINGS PER SHARE

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

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

K) REVENUE RECOGNITION

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

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

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

L) GOVERNMENT CONTRIBUTION

The government contribution, which consists in research tax credits and grants, is applied against related expenses and cost of net asset acquired. The government contribution 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

M) FOREIGN EXCHANGE

The Company's foreign subsidiaries are considered to be integrated foreign operations. Foreign denominated monetary assets and liabilities of the Canadian and foreign operations are translated in Canadian dollars at the rates of exchange prevailing at the balance sheet dates. Other assets and liabilities are translated at the exchange rates prevailing when the assets were acquired or the liabilities incurred. Revenues and expenses are translated at the average exchange rate prevailing during the year, except for depreciation and amortization which are translated at the same rates as those used in the transition of the corresponding assets. Foreign exchange gains and losses are included in the determination of net earnings or net loss.

N) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items for which management must make estimates relate to the valuation and assessment of recoverability of research tax credits, patents, intellectual property as well as future income taxes. Reported amounts and note disclosure reflect the overall economic conditions that are most likely to occur and anticipated measures to be taken by management. Actual results could differ from those estimates.

3. COMMERCIALIZATION AGREEMENT

In 2002, the Company signed a licensing agreement with a Japanese company for the development and commercialization of the ThGRF peptide in a variety of therapeutic applications in Japan. Under the terms of the agreement, the Japanese company will, among other things, assume development and commercialization costs. In addition to upfront payments of \$3,255 (US\$2,000) recognized in earnings, the Company will collect additional payments relating to the achievement of clinical milestones by the Japanese company as well as royalties based on product sales from this company.

4. INVESTMENTS IN COMPANIES

| | 2003 | 2002 |
|---|-----------------|----------|
| Ecopia (market value: \$3,118 in 2003; \$1,408 in 2002) | \$ 1,208 | \$ 1,314 |
| Andromed (market value: \$2,758 in 2003; \$7,995 in 2002) | 1,187 | 2,203 |
| | \$ 2,395 | \$ 3,517 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

4. INVESTMENTS IN COMPANIES (continued)

In 2002, the following transactions occurred:

- A) As a result of the exercise of warrants by their holder, the Company disposed of 9,750,000 common shares of Ecopia, recording a gain of \$6,658.
- B) An allowance for impairment of value of \$2,265 was recorded following the analysis by management of the recoverable amount of the investment in Ecopia.
- C) The Company recognized a gain of \$1,458 resulting mainly from the issuance of shares to third parties by Andromed.

In 2003, the Company recorded a gain of \$772, mainly as a result of the issuance of shares to third parties by Andromed.

5. PROPERTY, PLANT AND EQUIPMENT

2003

| | Cost | Accumulated depreciation and amortization | Net book value |
|--------------------------------|-----------------|--|---------------------------|
| Computer equipment | \$ 1,416 | \$ 1,070 | \$ 346 |
| Laboratory equipment | 4,396 | 2,071 | 2,325 |
| Office equipment and furniture | 1,197 | 477 | 720 |
| Leasehold improvements | 2,837 | 904 | 1,933 |
| | \$ 9,846 | \$ 4,522 | \$ 5,324 |

2002

| | Cost | Accumulated depreciation and amortization | Net book value |
|--------------------------------|-----------------|--|---------------------------|
| Computer equipment | \$ 1,618 | \$ 683 | \$ 935 |
| Laboratory equipment | 4,212 | 880 | 3,332 |
| Office equipment and furniture | 1,661 | 376 | 1,285 |
| Leasehold improvements | 2,235 | 238 | 1,997 |
| | \$ 9,726 | \$ 2,177 | \$ 7,549 |

As at November 30, 2003, a subsidiary of the Company, Celmed, had fixed assets held for resale bearing a net book value of \$206; these fixed assets are included in "laboratory equipment".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

6. OTHER ASSETS

| | 2003 | | |
|----------------------------|------------------|---|-------------------|
| | Cost | Accumulated depreciation and amortization | Net book value |
| Intellectual property | \$ 21,038 | \$ 14,539 | \$ 6,499 |
| Patent costs | 2,055 | 864 | 1,191 |
| Deferred development costs | 262 | 70 | 192 |
| Research supplies | 1,984 | - | 1,984 |
| | \$ 25,339 | \$ 15,473 | \$ 9,866 |

| | 2002 | | |
|----------------------------|------------------|---|-------------------|
| | Cost | Accumulated depreciation and amortization | Net book value |
| Intellectual property | \$ 21,276 | \$ 1,292 | \$ 19,984 |
| Patent costs | 1,744 | 674 | 1,070 |
| Deferred development costs | 262 | 70 | 192 |
| | \$ 23,282 | \$ 2,036 | \$ 21,246 |

As at November 30, 2003, the accumulated depreciation and amortization related to intellectual property includes an impairment of \$12,325 (see note 7 (B)).

In June 2001, the Company acquired the shares of two Californian companies in order to obtain their intellectual property relating to the field of autologous transplantation in patients with Parkinson's disease. The Company has also acquired part of the intellectual property related to this field from third parties.

The amount indicated for intellectual property includes the amount for Class A shares issued by the Company in consideration for the acquisition of intellectual property held by third parties, and for the acquisition of the companies, the assumption of liabilities, the cash consideration and future income tax relating to these amounts.

The amount related to the issued shares, which totaled \$3,900 as at November 30, 2001, could total up to \$18,000 if the contingent considerations thereto are respected. To this effect, the milestones related to one of the contingent considerations have been satisfied in 2002, and an amount of \$4,700 was recognized in the financial statements, as well as future income taxes of \$1,728. However, the milestones related to the two last contingent considerations were not met before the set deadline of June 30, 2003. In addition, a gain on dilution of \$2,637 was recorded in earnings when the consideration was met.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

7. RESTRUCTURING COSTS AND IMPAIRMENT OF DEPRECIABLE ASSETS

- A) In March 2003, Celmed's board of directors approved a strategic reorientation to intensify clinical development activities with regards to its two technological platforms: Theralux™, designed to treat certain cancers, and Neuro, for the treatment of Parkinson's disease. This restructuring was done in order to prioritize the advancement of the clinical development program. Celmed rapidly initiated an action plan that was executed and led to a reduction of its personnel. Furthermore, within the framework of the announced plan, Celmed recognized an impairment of \$90 for certain intangible assets, and of \$1,186 for leasehold improvements and equipment. This impairment was calculated according to the recoverable amount on the basis of information obtained from suppliers and other companies working in the same industry segment. Restructuring fees totaled \$2,190.
- B) Subsequent to November 30, 2003, Celmed agreed to review the relevance of pursuing its activities regarding the treatment of Parkinson's disease. Management intends to explore the many possibilities with regards to technology pertaining to neurology. Furthermore, barring the absence of any additional data regarding the value of the intellectual property, Celmed recognized an allowance of \$12,325 with regards to the related amount recorded. An impairment of \$645 was recognized for property, plant and equipment based on a recoverable amount calculated on the basis of cash flows, information from the suppliers and other companies working in a similar industry. Furthermore, future income taxes related to intellectual property totaling \$3,075 were reversed.

8. CAPITAL STOCK

| | 2003 | 2002 |
|---|-------------------|------------|
| Authorized in unlimited number and without par value: | | |
| Common shares | | |
| Preferred shares issuable in one or more series | | |
| Issued: | | |
| 30,918,631 common shares (30,785,813 in 2002) | \$ 139,791 | \$ 139,223 |

A) CHANGES IN THE ISSUED AND OUTSTANDING CAPITAL STOCK WERE AS FOLLOWS:

| | Number | Dollars |
|--|------------|------------|
| Balance as at November 30, 2001 | 27,732,937 | \$ 108,618 |
| Shares issued pursuant to offerings | 2,928,000 | 30,012 |
| Shares issued upon exercise of stock options | 80,000 | 332 |
| Shares issued to employees | 44,876 | 261 |
| Balance as at November 30, 2002 | 30,785,813 | 139,223 |
| Shares issued upon exercise of stock options | 107,000 | 441 |
| Shares issued to employees | 25,818 | 127 |
| Balance as at November 30, 2003 | 30,918,631 | \$ 139,791 |

All shares were issued for a cash consideration.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

8. CAPITAL STOCK (continued)

B) THE COMPANY'S STOCK OPTION PLAN

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

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

| | Options | Weighted average exercise price per share |
|---------------------------------|-----------|---|
| Options as at November 30, 2001 | 2,212,500 | \$ 7.79 |
| Granted | 495,000 | 9.29 |
| Exercised | (80,000) | 4.15 |
| Cancelled | (65,002) | 11.75 |
| Options as at November 30, 2002 | 2,562,498 | 8.09 |
| Granted | 295,000 | 5.47 |
| Exercised | (107,000) | 4.12 |
| Cancelled | (98,999) | 10.50 |
| Options as at November 30, 2003 | 2,651,499 | \$ 7.87 |

The following table provides stock option information as at November 30, 2003:

| Price range | Options outstanding | | | Exercisable options | | |
|-------------------|-------------------------------------|---|--|-------------------------------------|--|--|
| | Number of options outstanding | Weighted average remaining life (years) | Weighted average exercise price | Number of exercisable options | Weighted average exercise price | |
| \$ 2.99 - \$ 3.75 | 145,000 | 2.50 | \$ 3.41 | 145,000 | \$ 3.41 | |
| 3.76 - 4.60 | 430,000 | 3.08 | 4.53 | 430,000 | 4.53 | |
| 4.61 - 6.00 | 700,000 | 6.47 | 5.48 | 520,000 | 5.46 | |
| 6.01 - 9.00 | 370,000 | 7.22 | 8.04 | 176,666 | 8.07 | |
| 9.01 - 13.50 | 788,333 | 7.26 | 10.53 | 491,659 | 10.54 | |
| 13.51 - 20.00 | 218,166 | 7.15 | 15.21 | 204,564 | 15.22 | |
| | 2,651,499 | | | 1,967,889 | | |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

8. CAPITAL STOCK (continued)

C) CELMED'S STOCK OPTION PLAN

Celmed has established a stock option plan under which it can grant to its directors, officers, employees, researchers and consultants non-transferable options for the purchase of common shares. The exercise date of an option may not be later than 10 years after the date of grant. However, no options can be exercised before the registration date of the shares of that company on a recognized stock exchange. A maximum number of 2,000,000 options can be granted under the plan. The exercise price cannot be less than the fair market value or the issue price of the shares during the last six months. The options vest at the date of the grant or over a period of 3 to 5 years.

Changes in the number of options outstanding during the year were as follows:

| | Options | Weighted average exercise price per share |
|---|-----------|---|
| Options outstanding as at November 30, 2002 | 1,233,000 | \$ 10 |
| Granted | 350,000 | 5 |
| Cancelled | (973,000) | 10 |
| Options as at November 30, 2003 | 610,000 | \$ 7.13 |

The following table provides stock option information as at November 30, 2003:

| Options outstanding | | | Exercisable options | | |
|---------------------|-------------------------------------|---|--|-------------------------------------|--|
| Price | Number of options outstanding | Weighted average remaining life (years) | Weighted average exercise price | Number of exercisable options | Weighted average exercise price |
| \$ 5 | 350,000 | 9.62 | \$ 5 | 155,000 | \$ 5 |
| \$ 10 | 260,000 | 6.68 | \$ 10 | 256,664 | \$ 10 |
| | 610,000 | | | 411,664 | |

D) STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The table below presents *pro forma* net loss and loss per share as if stock options granted to employees had been accounted for based on the fair value method.

| | 2003 | 2002 |
|--|-------------|-------------|
| Net loss as reported | \$ (32,770) | \$ (14,336) |
| Estimated stock-based compensation costs | (1,029) | (428) |
| <i>Pro forma</i> net loss | \$ (33,799) | \$ (14,764) |
| <i>Pro forma</i> net loss per share | \$ (1.10) | \$ (0.48) |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

8. CAPITAL STOCK (continued)

D) STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS (continued)

The fair value of the options granted was estimated at the date of grant using the Black-Scholes options pricing model with the following assumptions for Theratechnologies: risk-free interest rate ranging from 4.09% to 4.99%, expected dividend yield of nil, expected volatility ranging from 36% to 76% and expected average option life of 6 years. The weighted average fair value of the 295,000 options granted during the twelve-month period ended November 30, 2003 is \$2.42 per option. In regard to Celmed, a private company, the assumptions are as follows: risk-free interest rate ranging from 3.81% to 5.16%, expected dividend yield of nil, expected volatility of nil and expected average option life of 6 years. The weighted average fair value of the 350,000 options granted by Celmed during the twelve-month period ended November 30, 2003 is \$1.01 per option.

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

E) WARRANTS

- i) In connection with shares issued pursuant to offerings, the Company also granted warrants for the purchase of shares. As at November 30, 2003, there were 200,000 outstanding warrants for the purchase of 200,000 common shares at a price of \$15 per share until October 2005.
- ii) The Company entered into an incentive agreement with certain non-controlling shareholders for Celmed to proceed with an initial public offering. In connection therewith, the Company issued to these non-controlling shareholders 1,800,000 warrants for the purchase of 1,800,000 common shares. The warrants, vesting at various dates mentioned below, will be exercisable if Celmed is not a publicly traded company or a wholly-owned subsidiary. These warrants will then reduce the number of issued warrants mentioned in the following paragraph.

| Date | Warrants | Exercise period | Exercise price |
|---------------|----------|-----------------|----------------|
| June 21, 2002 | 360,000 | 2 years | \$ 14.30 |
| June 21, 2003 | 360,000 | 2 years | 15.73 |
| June 21, 2004 | 360,000 | 2 years | 17.30 |
| June 21, 2005 | 720,000 | 1 year | 17.30 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

8. CAPITAL STOCK (continued)

E) WARRANTS (continued)

ii) (continued)

Furthermore, the Company has an option to purchase ("purchase option") all the shares of Celmed held by third parties ("non-controlling shareholders") at specific dates until June 2005. This option expires automatically if Celmed is then a company registered on a recognized stock exchange. In connection with the option, the Company issued to the non-controlling shareholders 4,680,000 warrants for the purchase of 4,680,000 common shares at prices per share varying from \$14.30 to \$24.17 which are related to the date of exercise of the option of the Company. These warrants expire automatically at the earlier of (i) June 21, 2006 (ii) the date when common shares of Celmed are traded on a recognized stock exchange, provided that the Company has not exercised its purchase option or (ii) after a period of one year or two years following the exercise of the purchase option.

F) EARNINGS PER SHARE

The weighted average number of outstanding shares for the purposes of calculating diluted earnings or loss per share is as follows:

| | 2003 | 2002 |
|--|-------------------|------------|
| Weighted average number of outstanding shares | 30,821,947 | 30,611,520 |
| Number of shares which can be exercised, net of potential share buyback | 115,923 | 520,494 |
| Weighted average number of shares used for the calculation of the diluted earnings per share | 30,937,870 | 31,132,014 |

The exercise of 1,712,499 options (1,346,000 in 2002) and 4,880,000 warrants (4,880,000 in 2002) was not considered in the above number because the exercise price was higher than the average market price during the covered period.

The effect of the options and the warrants was not taken into account in the calculation of the diluted earnings per share because they were anti-dilutive in 2003 and 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

9. FUTURE INCOME TAXES

Items relating to income taxes are as follows:

| | 2003 | 2002 |
|---|--------------------|---------------|
| Loss before income taxes and non-controlling interest | \$ (44,445) | \$ (17,552) |
| Basic income tax rate | 33% | 35% |
| Computed income tax provision | (14,667) | (6,143) |
| Increase (decrease) in income taxes resulting from: | | |
| Unrecorded potential tax benefit of current period losses | 10,028 | 7,515 |
| Non-taxable items and others | 1,491 | (1,086) |
| | | \$ 286 |

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

| | 2003 | 2002 |
|--|------------------|------------|
| Future income tax assets: | | |
| Losses carried forward | \$ 13,835 | \$ 8,619 |
| Unused research and development expenses | 18,859 | 15,631 |
| Property, plant and equipment | 33 | - |
| Share issue costs | 660 | 1,002 |
| Investments | 385 | 326 |
| Intellectual property – Canada | 4,054 | 4,506 |
| Available deductions and other | 196 | 185 |
| | 38,022 | 30,269 |
| Future income tax liabilities: | | |
| Property, plant and equipment | - | (704) |
| Intellectual property | (1,376) | (6,139) |
| | (1,376) | (6,843) |
| | 36,646 | 23,426 |
| Less provision | (36,646) | (26,574) |
| Net future income tax liability | \$ - | \$ (3,148) |

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 and development of a tax planning strategy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

9. FUTURE INCOME TAXES (continued)

As at November 30, 2003, the Company had available the following deductions, losses and credits:

| | Canada | | United States |
|---|-----------|------------|---------------|
| | Federal | Provincial | |
| Research and development expenses, without time limitation | \$ 52,544 | \$ 80,518 | \$ – |
| Losses carried forward, until: | | | |
| 2004 | \$ 3,507 | \$ 3,093 | \$ – |
| 2005 | 2,831 | 2,105 | – |
| 2006 | 2,895 | 2,409 | – |
| 2007 | 735 | 726 | – |
| 2008 | 1,492 | 4,809 | – |
| 2009 | 11,334 | 9,137 | – |
| 2010 | 19,770 | 18,645 | – |
| 2019 | – | – | 307 |
| 2020 | – | – | 292 |
| 2021 | – | – | 795 |
| 2022 | – | – | 10 |
| 2023 | – | – | 357 |
| | \$ 42,564 | \$ 40,924 | \$ 1,761 |
| Unused tax credits expiring in: | | | |
| 2004 | \$ 984 | | |
| 2005 | 973 | | |
| 2006 | 487 | | |
| 2007 | 640 | | |
| 2008 | 680 | | |
| 2009 | 538 | | |
| 2010 | 745 | | |
| 2011 | 1,939 | | |
| 2012 | 3,082 | | |
| 2013 | 2,344 | | |
| | \$ 12,412 | | |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

9. FUTURE INCOME TAXES (continued)

| | Canada | | United States |
|--|----------|------------|---------------|
| | Federal | Provincial | |
| Share issue costs | \$ 2,122 | \$ 2,122 | – |
| Excess (deficit) of tax value of intellectual property over carrying value | 13,495 | (372) | – |
| Excess of tax value of property, plant and equipment over carrying value | 88 | 146 | – |
| Other | 532 | 451 | – |

Losses in the United States can be carried forward over a period of 20 years at the federal level. For the State of California, a subsidiary has losses of \$6, \$250, \$473 and \$214 that can be carried forward until 2009, 2010, 2011 and 2013, respectively.

10. COMMITMENTS

A) RENTAL OF PREMISES

The Company rents premises under operating leases expiring in March 2010 and November 2012. The minimum payments required under the terms of the lease are as follows:

| | |
|------------|-----------------|
| 2004 | \$ 1,152 |
| 2005 | 969 |
| 2006 | 987 |
| 2007 | 999 |
| 2008 | 1,023 |
| Thereafter | 2,102 |
| | <u>\$ 7,232</u> |

In addition, the Company, under the terms of a lease, has to maintain an irrevocable letter of credit amounting to \$729, along with a first rank movable hypothec, which can be subordinated with regard to lending institutions, of \$1,150 covering the Company's tangible assets located in the rented premises. This contract comprises progressive reduction clauses with respect to the amount of the letter of credit beginning in 2004 and an option for the purchase of a building and the related land.

The subsidiary, Celmed, must also maintain an irrevocable letter of credit amounting to \$295 for the premises it rents.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

10. COMMITMENTS (continued)

B) CREDIT MARGIN

The Company has a credit margin extending to \$1,800, bearing interest at prime plus 0.50% and guaranteed by bonds. The market value of the investments should always be equivalent to 150% of advances used on the credit margin. If the market value falls below \$7,000, the Company will agree to give the bank a first rank movable hypothec of \$800 affecting securities judged satisfactory by the bank and having a market value of at least \$1,000.

Furthermore, Celmed disposes of a credit margin of up to \$1,800, bearing interest at prime plus 0.50% guaranteed by bonds. If the market value of the bonds falls below \$7,000, Celmed must extend to the bank a first rank movable hypothec of \$1,850 affecting securities judged satisfactory by the bank.

As at November 30, 2003, the letters of credit mentioned in A) above had been issued pursuant to the credit margins available to the Company and its subsidiary.

C) GRANT

Under the terms of an agreement entered into in 1999 with Technology Partnerships Canada, the Company accepted to receive a financial contribution over a four-year period of up to \$4,600 for clinical trials and commercialization of the photodynamic treatment of cancers affecting bone marrow. As at November 30, 2003, a total amount of \$4,600 has been claimed by the Company (2002 - \$4,473). An amount of \$50 (2002 - \$1,171) was recognized in earnings and no amounts were deducted from fixed assets and patent costs in 2003 (\$454 and \$42 in 2002, respectively). An amount of \$42 will be received as at November 30, 2003 (2002 - \$863). The Company is committed to pay a royalty based on the gross revenues it will generate from the commercialization of this treatment until 2009. This period can be extended until 2019 if the cumulative amount of royalties does not reach the amount established under the terms of the agreement. The grant was transferred to Celmed in connection with the transfer of the Company's cellular therapy activities.

11. LICENSES

The Company has certain exclusive licenses to market or commercialize intellectual property from research activities performed by certain research facilities. Under these licenses, the Company is committed to pay royalties on the net sales of the products commercialized by the Company, or, if applicable, on the amounts received from sub-licenses, subject to the application of the clauses of such agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

12. FINANCIAL INSTRUMENTS

A) FAIR VALUE

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

The bonds are comprised of fixed income instruments from municipal and paragonovernmental bodies as well as from companies with a high credit rating (not less than BBB+). The weighted average effective interest rate of the bonds is approximately 4.3%. The long-term bonds mature as follows: \$25,246 in 2005, \$5,874 in 2006 and \$3,364 in 2007.

The fair market value of the bonds amounts to \$74,115 as at November 30, 2003 (\$103,687 in 2002). The fair value of the bonds classified in the short-term assets approximates cost at these dates.

B) FOREIGN CURRENCY

The Company owns financial assets and liabilities in foreign currency. However, the value of these assets and liabilities is low and, consequently, the risk related to foreign currency fluctuations is practically nil.

13. SEGMENTED INFORMATION

The Company conducts its activities in two segments: the development of therapeutic peptides and cellular therapy. Development of therapeutic peptides is carried out by Theratechnologies whereas, since June 21, 2001, the cellular therapy activities are performed by Celmed, a 61.6% held subsidiary. Furthermore, Andromed, a company under significant influence, conducts its activities in the field of medical devices and is presented under "other segments".

The Company's reportable segments are strategic operating units which focus on research and development activities and the commercialization of innovative products dedicated to the healthcare and biotechnology industries. They are managed separately because each segment requires different technologies and marketing strategies.

The accounting policies of the various segments are the same as those described in the summary of significant accounting policies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

13. SEGMENTED INFORMATION (continued)

The following schedules contain the segmented information as well as the information related to the joint ventures:

| | | | | | 2003 |
|---|-------------------------|---------------------|-------------------|---|-----------------|
| | Therapeutic peptides | Cellular therapy | Other segments | Intersegment adjustments and eliminations | Total |
| Revenue from external customers | \$ 197 | \$ - | \$ - | \$ - | \$ 197 |
| Intersegment revenues | 152 | - | - | (152) | - |
| Research and development, net amount | 15,956 | 6,823 | - | - | 22,779 |
| Other expenses | 4,893 | 4,781 | - | (152) | 9,522 |
| Net loss | (18,095) | (22,216) | (990) | 8,531 | (32,770) |
| Total assets | 56,302 | 36,014 | 2,395 | (119) | 94,592 |
| Cash and cash equivalents | 7 | 46 | - | - | 53 |
| Bonds | 42,674 | 31,113 | - | - | 73,787 |
| Cash flows: | | | | | |
| Operations | (17,993) | (9,383) | - | - | (27,376) |
| Investment | 17,394 | 9,271 | - | - | 26,665 |
| Financing | 568 | - | - | - | 568 |
| Addition to property, plant and equipment | 307 | 982 | - | - | 1,289 |

Depreciation and amortization related to therapeutic peptides and cellular therapy segments amount to \$1,051 and \$16,103, respectively, and are included in research and development expenses and other expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

13. SEGMENTED INFORMATION (continued)

| | 2002 | | | | |
|---|-------------------------|---------------------|-------------------|---|----------|
| | Therapeutic peptides | Cellular therapy | Other segments | Intersegment adjustments and eliminations | Total |
| Revenue from external customers | \$ 3,274 | \$ – | \$ 221 | \$ – | \$ 3,495 |
| Intersegment revenues | 962 | 175 | – | (1,137) | – |
| Research and development, net amount | 16,357 | 7,450 | – | (175) | 23,632 |
| Other expenses | 6,456 | 3,996 | – | (962) | 9,490 |
| Net loss | (15,840) | (9,121) | (1,365) | 11,990 | (14,336) |
| Cash and cash equivalents | 40 | 156 | – | – | 196 |
| Bonds | 61,142 | 41,569 | – | – | 102,711 |
| Total assets | 74,150 | 62,499 | 3,517 | 332 | 140,498 |
| Cash flows: | | | | | |
| Operations | (14,848) | (8,800) | – | – | (23,648) |
| Investment | (15,472) | 8,118 | – | – | (7,354) |
| Financing | 28,757 | – | – | – | 28,757 |
| Addition to property, plant and equipment | 1,282 | 4,914 | – | – | 6,196 |

Depreciation and amortization related to therapeutic peptides and cellular therapy amount to \$1,103 and \$1,364, respectively, and are included in research and development expenses and other expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002
(in thousands of dollars, except per share amounts)

14. SUPPLEMENTAL CASH FLOW INFORMATION

The Company conducted the following transactions not involving cash:

| | 2003 | 2002 |
|---|-------------|----------|
| Acquisition of assets and liabilities by way of a share issue by a subsidiary: | | |
| Intellectual property | \$ - | \$ 6,428 |
| Future income tax | - | (1,728) |
| Addition to property, plant and equipment and other assets financed by accounts payable and accrued liabilities | 111 | 362 |
| Acquisition of intellectual property by way of stock option issue | - | 108 |

Tax credits received by the Company during the year amounted to \$1,892 (\$2,539 in 2002).

General and administrative expenses include a gain on exchange of \$275 for the twelve-month period ended November 30, 2003 (loss of \$45 in 2002).

15. SUBSEQUENT EVENTS

- A) On February 4, 2004, the Company concluded an underwriting agreement regarding an initial public offering for the sale and issue of 3,950,000 common shares for cash proceeds of \$13,628. The issuance costs total approximately \$1,018. According to the terms of this agreement, the Company has also granted an over-allotment option for the sale and issue of 592,500 additional shares at an issue price of \$3.45 per share.
- B) The deferred gains recorded in the balance sheet are comprised of the dilution gain related to the interest in Celmed. In January and February 2004, the conclusion of the adjustment clauses related to non-controlling interests reduced the Company's interest in Celmed from 61.6% to 56.1%. The amount of \$3,762, included in deferred gains, will therefore be reclassified under non-controlling interests in 2004.

CORPORATE INFORMATION

BOARD OF DIRECTORS

A. Jean de Grandpré, C.C., Q.C.^{1,3}

Chairman of the Board
Theratechnologies Inc.

André de Villers, M.D.

Vice Chairman of the Board
Theratechnologies Inc.
President and
Chief Executive Officer
Celmed BioSciences Inc.

Luc Tanguay, M.Sc., CFA

President and
Chief Executive Officer
Theratechnologies Inc.

Gilles Cloutier, Ph.D.³

Director of various companies

André Delambre, CA^{2,3}

Executive Vice President
Finance and Administration
Les Productions Feeling inc.

Monique Lefebvre, Ph.D.^{1,3}

Director of various companies

Paul Pommier, M.B.A.^{1,2,3}

Director of various companies

Henri A. Roy, Eng., M.B.A.

Chairman of the Board
and President and General Manager
Société générale de financement du Québec

Jean-Denis Talon^{2,3}

Chairman of the Board and
Chief Executive Officer
AXA Canada

MANAGEMENT

Luc Tanguay, M.Sc., CFA

President and
Chief Executive Officer

Thierry Abrisbat, Ph.D.

Vice President and
Chief Scientific Officer

Luc Vachon, Ph.D.

Vice President
Drug Development

Gérald André, Eng., Ph.D.

Vice President, Corporate Development

Marie-Noël Colussi, CA

Vice President, Finance

Geneviève Dubuc, B. Com., LL.L.

Director, Legal Services and Intellectual Property
Management, and Secretary

Eckhardt S. Ferdinandi, Ph.D.

Vice President
Preclinical Research

Peter McBride, B.A.

Vice President, Investor Relations
and Public Affairs

Pierre Perazzelli, B.Sc.

Vice President, Corporate Services and Information
Technology

1 Member of the Compensation Committee

2 Member of the Audit Committee

3 Member of the Nominating Committee

CORPORATE INFORMATION

SCIENTIFIC ADVISORY BOARD

Roger Guillemin, M.D., Ph.D.
Nobel Prize for Medicine
Distinguished Professor, Salk Institute
Endocrinologist and co-discoverer with
Dr. Paul Brazeau of somatocrinin (GRF)
and somatostatin

David Clemmons, M.D.
Professor of Medicine,
Head, Endocrinology Division,
University of North Carolina at Chapel Hill

Ezio Ghigo, M.D., Ph.D.
Head, Department of Endocrinology,
University of Turin (Italy)

George R. Merriam, M.D., Ph.D.
Professor of Medicine,
Division of Metabolism, Endocrinology
and Nutrition, University of Washington School
of Medicine

A.J. van der Lely, M.D., Ph.D.
Head, Endocrinology Division,
Academic Hospital of the Erasmus University,
Rotterdam (Netherlands)

OTHER RESEARCH COLLABORATORS

Alcide Chapdelaine, M.D., M.Sc., C.S.P.Q., F.R.C.P.
Endocrinologist and researcher
Former Assistant Dean, Faculty of Medicine
University of Montreal

Paul Brazeau, Ph.D.
Full Professor, Faculty of Medicine
University of Montreal

Sylvain Chemtob, M.D., Ph.D., F.R.C.P.
Professor of Pediatrics, Ophthalmology and
Pharmacology, University of Montreal, and
researcher at Sainte-Justine Hospital

Pascal Dubreuil, D.V.M., Ph.D.
Full professor, Faculty of Veterinary Medicine
University of Montreal

Denis Gravel, Ph.D., F.C.I.C.
Emeritus professor, Chemistry Department
University of Montreal

CORPORATE INFORMATION

LISTING: Toronto Stock Exchange

SYMBOL: TH

TRANSFER AGENT AND REGISTRAR

National Bank Trust
1100 University, 9th Floor
Montreal, Quebec
Canada H3B 2G7
Phone: (514) 871-7171
Fax: (514) 871-7442

AUDITORS
KPMG LLP

BANK

National Bank of Canada

ANNUAL MEETING OF SHAREHOLDERS

Monday, May 3, 2004
at 10:00 a.m.
Centre Mont-Royal
2200 Mansfield Street
Montréal, Québec

Investor Relations Contacts:

Peter McBride
Phone: (514) 336-4804, ext. 215
Email: pmcbride@theratech.com

Tobie Trudel
Phone: (514) 336-4804, ext. 229
Email: ttrudel@theratech.com

**To obtain copies of this annual report,
annual notice or quarterly financial reports,
please contact:**

Corporate Communications
2310 Alfred-Nobel Blvd.
Saint Laurent, Quebec
Canada H4S 2A4
Phone: (514) 336-7800
Fax: (514) 336-4451
Email: thera@theratech.com

Ce document est aussi offert en français

Printed in Canada

Legal deposit - 2nd quarter 2004

