



Quarterly Report 2003

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THERATECHNOLOGIES. DISEASE-FOCUSED, SOLUTION-ORIENTED.



• **Thera**
technologies

MESSAGE TO SHAREHOLDERS

In the first six months of the year, Theratechnologies achieved solid progress on building its franchise in endocrinology and metabolism.

ThPTH and ThGLP-1 programs. Preparations are now well underway for the clinical development of ThPTH for osteoporosis and the Company recently entered into development of a stabilized GLP-1 (glucagon-like peptide-1) analogue, aimed at treating type II diabetes. This accomplishment reflects the value of the patented LAP (Long Acting Peptides) technology, used to develop several stabilized GLP-1 analogues.

ThGRF program. With respect to ThGRF, a growth hormone-releasing factor analogue, the results of several clinical studies thus far have established a safety profile for ThGRF that differentiates it from growth hormone-based products. In addition, its emerging pharmacological profile identifies two distinct mechanisms of action and two therapeutic fields, each with attractive market potential.

In regard to the anabolic effects of ThGRF, the Company announced the end of patient enrolment for its two studies. Enrolment in the chronic obstructive pulmonary disease (COPD) study was completed in April and enrolment for the hip fracture study was completed in July. These two studies will provide important information on the therapeutic effects of this product in the coming months and will validate its potential in a sizeable market with large unmet medical needs.

In addition, Theratechnologies launched a new study in May exploring the lipolytic and cholesterol-lowering effects of ThGRF. This study targets HIV-related lipodystrophy. Positive results in this indication could enlarge the field of investigation for ThGRF to include the metabolic syndrome (syndrome X).

Scientific communications. Recognition by the scientific community is also important to establishing a franchise in endocrinology and metabolism. Accordingly, Theratechnologies is increasing its visibility by participating in major events. In June, the Company and its collaborators made five poster presentations at the 85th Annual Meeting of the Endocrine Society (ENDO 2003), the world's largest and most active professional organization of endocrinologists. The Company presented a comprehensive progress report on its development activities through two scientific posters on its ThGRF program, one poster on its osteoporosis program and two on its type II diabetes program. Theratechnologies also presented a progress report on its recent activities at the Business Forum segment of BIO 2003, a major event in the field of biotechnology.

Celmed BioSciences. Celmed made significant 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). This designation is granted to products with the potential to treat life-threatening diseases that affect fewer than 200,000 patients in the United States. It affords seven years of market exclusivity in the United States and provides access to potential grant funding for clinical research and other cost savings.

In July, 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. The positive results are prompting Celmed to accelerate development of Theralux™.

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

The following information should be read in conjunction with the unaudited consolidated financial statements and related notes included herein, as well as the audited consolidated financial statements for the fiscal year ended November 30, 2002.

SUMMARY OF OPERATING RESULTS

Revenues. Theratechnologies' consolidated revenues for the three-month period ended May 31, 2003 amounted to \$1,028,000, compared to \$1,436,000 for the same period in 2002. This variance is due to a drop in interest revenues from the Company's decreased cash position since 2002, which totalled \$84,899,000 at May 31, 2003 compared to \$117,873,000 at the same date in 2002.

R&D. Consolidated research and development (R&D) expenditures, before tax credits and grants, totalled \$5,835,000 for the second quarter of 2003, compared to \$5,999,000 for the same period in 2002, reflecting essentially the same accelerated pace of clinical development activities. Theratechnologies and Celmed invested \$3,932,000 and \$1,903,000, respectively, in R&D for the three-month period ended May 31, 2003.

Tax credits and grants. For the second quarter of 2003, tax credits and grants totalled \$310,000, compared to \$663,000 for the same period in 2002. The variance is mainly due to the expiration in 2002 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 \$2,561,000 for the three-month period ended May 31, 2003, compared to an amount of \$2,487,000 for the same period in 2002. The Company maintained these expenses at a stable level, that is 30.5% of costs and expenses before tax credits and grants, compared to 29.3% in 2002.

Restructuring costs. Celmed's strategic reorientation launched in March, which focuses on the advancement of its clinical program, generated certain non-recurring costs posted under the item "Restructuring costs". These costs total \$1,745,000 and include severance pay to employees and related costs, a decrease in intangible assets and a charge for write-downs of some equipment, leasehold improvements and related charges.

Gain on dilution in relation to an interest in a company. During the quarter, Theratechnologies realized a gain on dilution of \$675,000 mainly as a result of a share issue by Andromed to third parties. At May 31, 2003, Theratechnologies' interest in Andromed was 24.8%.

Net results. Consequently, for the three-month period ended May 31, 2003, the Company recorded an operating loss of \$7,058,000, compared to an operating loss of \$6,387,000 in 2002. The net loss was \$6,925,000, compared to \$65,000 in 2002. The lower loss in 2002 reflects a gain of \$5,979,000 realized by the Company, resulting mainly from the disposal of shares of Ecopia following the exercise of warrants by their holder.

MANAGEMENT'S DISCUSSION AND **ANALYSIS** OF RESULTS OF OPERATION AND FINANCIAL CONDITION (continued)

LIQUIDITY AND CAPITAL RESOURCES

Theratechnologies maintains a sound cash position. On a consolidated basis, at May 31, 2003, cash and cash equivalents as well as bonds amounted to \$84,899,000 and tax credits and grants receivable amounted to \$1,816,000, for a total amount of \$86,715,000. Liquidities, tax credits and grants receivable totalled \$50,844,000 for Theratechnologies and \$35,871,000 for Celmed at that date.

For the three-month period ended May 31, 2003, Theratechnologies' and Celmed's burn rate, excluding changes in operating assets and liabilities, reached \$4,103,000 and \$3,192,000, respectively, for a total amount of \$7,295,000. Excluding restructuring costs, which are non-recurring, the burn rate was \$6,384,000.

At July 14, 2003, the number of shares issued and outstanding reached 30,810,043 common shares, while outstanding options granted under the stock option plan reached 2,692,498. In addition, 4,880,000 warrants were also outstanding.

RISKS AND UNCERTAINTIES

This quarterly report contains forward-looking information, which reflects the Company's current expectations regarding future events. Because of risks and uncertainties related to the business of the Company, actual results could differ materially from the statements provided herein. Investors should refer to page 17 of the Company's 2002 Annual Report to obtain a complete analysis of risks and uncertainties.

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(signed)

Luc Tanguay, M.Sc., CFA
President and Chief Executive Officer

(signed)

Marie-Noël Colussi, CA
Vice President, Finance

July 2003

CONSOLIDATED BALANCE SHEET

(in thousands of dollars)	May 31 2003 (Unaudited)	November 30 2002 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,980	\$ 196
Bonds	46,148	39,098
Accounts receivable	622	608
Tax credits and grants receivable	1,816	2,135
Research supplies	3,290	1,993
Prepaid expenses	773	543
	<u>58,629</u>	<u>44,573</u>
Bonds	32,771	63,613
Investments in companies (note 2)	3,195	3,517
Property, plant and equipment	6,950	7,549
Other assets	20,689	21,246
	<u>\$ 122,234</u>	<u>\$ 140,498</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,053	\$ 9,161
Deferred gain	3,762	3,762
Future income taxes	3,157	3,148
Non-controlling interest	19,036	21,791
Shareholders' equity:		
Capital stock (note 5)	139,342	139,223
Contributed surplus	108	108
Deficit	(49,224)	(36,695)
	<u>90,226</u>	<u>102,636</u>
	<u>\$ 122,234</u>	<u>\$ 140,498</u>

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See accompanying notes to consolidated financial statements.



CONSOLIDATED STATEMENT OF EARNINGS

Periods ended May 31

(in thousands of dollars, except per share amounts) (Unaudited)

	Second Quarter		Six Months	
	2003	2002	2003	2002
Revenues:				
Royalties, technologies and other	\$ 15	\$ 49	\$ 110	\$ 3,367
Interest	1,013	1,387	2,058	2,617
	1,028	1,436	2,168	5,984
Costs and operating expenses:				
Research and development	5,835	5,999	11,466	12,589
Tax credits and grants	(310)	(663)	(722)	(1,310)
	5,525	5,336	10,744	11,279
General and administrative (note 3)	1,970	1,921	3,610	3,271
Selling and market development	214	310	407	565
Patents and amortization of other assets	377	256	747	536
	8,086	7,823	15,508	15,651
6 Operating loss before undernoted items	(7,058)	(6,387)	(13,340)	(9,667)
Restructuring costs (note 4)	(1,745)	—	(1,745)	—
Proportionate share in loss of a company under significant influence	(516)	(351)	(962)	(575)
Gains on investments in companies and gains on dilution	675	5,979	772	7,569
Loss before taxes and non-controlling interest	(8,644)	(759)	(15,275)	(2,673)
Foreign income tax	—	—	—	(326)
Future income taxes	13	12	(9)	44
Non-controlling interest	1,706	682	2,755	1,259
Net loss	\$ (6,925)	\$ (65)	\$ (12,529)	\$ (1,696)
Basic and diluted loss per share (note 5b)	\$ (0.22)	\$ —	\$ (0.41)	\$ (0.06)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF DEFICIT

Six-month periods ended May 31

(in thousands of dollars) (Unaudited)

	2003	2002
Deficit, beginning of period	\$ (36,695)	\$ (20,511)
Net loss	(12,529)	(1,696)
Share issue costs	—	(1,848)
Deficit, end of period	\$ (42,224)	\$ (24,055)

See accompanying notes to consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

Periods ended May 31

(in thousands of dollars) (Unaudited)

	Second Quarter		Six Months	
	2003	2002	2003	2002
Cash flows from operating activities:				
Net loss	\$ (6,925)	\$ (65)	\$ (12,529)	\$ (1,696)
Adjustments for:				
Depreciation of property, plant and equipment and write-off	1,115	289	1,546	476
Amortization of other assets and write-off	393	252	725	496
Amortization of deferred gains	—	(55)	—	(109)
Proportionate share in loss of a company under significant influence	516	351	962	575
Non-controlling interest	(1,706)	(682)	(2,755)	(1,259)
Future income taxes	(13)	(12)	9	(44)
Gains on investments in companies and gains on dilution	(675)	(5,979)	(772)	(7,569)
	(7,295)	(5,901)	(12,814)	(9,130)
Change in operating assets and liabilities:				
Interest receivable on bonds	243	(281)	616	(1,549)
Accounts receivable	(111)	1,371	(14)	(117)
Tax credits and grants receivable	125	(751)	319	(1,515)
Research supplies	233	(217)	(1,297)	(617)
Prepaid expenses	(60)	60	(230)	91
Accounts payable and accrued liabilities	(872)	550	(2,797)	604
	(442)	732	(3,403)	(3,103)
	(7,737)	(5,169)	(16,217)	(12,233)
Cash flows from financing activities:				
Share issue	93	204	119	30,446
Share issue costs	—	—	—	(1,848)
	93	204	119	28,598
Cash flows from investing activities:				
Addition to property, plant and equipment	(821)	(2,117)	(1,200)	(3,128)
Addition to other assets	(104)	(113)	(226)	(260)
Acquisition of bonds	(2,959)	(13,050)	(3,199)	(28,147)
Disposal of bonds	12,431	10,091	26,375	23,510
Disposal of warrants in a company	—	77	—	77
Disposal of stocks in a company	132	—	132	—
	8,679	(5,112)	21,882	(7,948)
Net change in cash and cash equivalents	1,035	(10,077)	5,784	8,417
Cash and cash equivalents, beginning of period	4,945	20,935	196	2,441
Cash and cash equivalents, end of period	\$ 5,980	\$ 10,858	\$ 5,980	\$ 10,858

See note 7 for additional information on cash flows.

See accompanying notes to consolidated financial statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six-month periods ended May 31, 2003

(in thousands of dollars, except per share amounts) (Unaudited)

1. BASIS OF PRESENTATION

The financial statements included in this report are unaudited and reflect normal and recurring adjustments, which are, in the opinion of the Company, considered necessary for a fair presentation. These financial statements have been prepared in conformity with Canadian generally accepted accounting principles. The same accounting policies as described in the Company's latest annual report have been used. However, these financial statements do not include all disclosures required under generally accepted accounting principles and accordingly should be read in connection with the financial statements and the notes thereto included in the Company's latest annual report.

2. INVESTMENTS IN COMPANIES

	May 31 2003	November 30 2002
8 Ecopia BioSciences Inc. (market value: \$1,765; \$1,408 in 2002)	\$ 1,208	\$ 1,314
Andromed Inc. (market value: \$5,197; \$7,995 in 2002)	1,987	2,203
	<u>\$ 3,195</u>	<u>\$ 3,517</u>

During the quarters ended February 28, 2003 and May 31, 2003, the Company realized gains of \$97 and \$675 respectively, mainly as a result of the issuance of shares to third parties by Andromed Inc.

3. GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses include a foreign exchange gain of \$115 for the second quarter of 2003 (loss of \$114 in 2002), and a gain of \$286 for the six-month period ended May 31, 2003 (loss of \$76 in 2002).

4. RESTRUCTURING COSTS

On March 25, 2003, Celmed Biosciences' Board of Directors approved a strategic reorientation to intensify its clinical development activities in regard to its two technological platforms: Theralux™, dedicated to the treatment of certain cancers, and Neuro, for the treatment of Parkinson's disease.

This change of orientation was made to prioritize the progress of the clinical development program. Celmed BioSciences rapidly developed an action plan which is now completed and resulted in a work-force reduction of 18%. In addition, the announced plan included Celmed BioSciences' reevaluation of the accounting value of certain intangible assets, leasehold improvements and equipment.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Three and six-month periods ended May 31, 2003

(in thousands of dollars, except per share amounts) (Unaudited)

4. RESTRUCTURING COSTS (continued)

A charge totalling \$1,745 originated from this restructuring and was recognized in the quarter ended May 31, 2003. This charge includes severance pay to employees and related charges, a write-down of intangible assets and a charge for the write-down of equipment, leasehold improvements and related charges. Equipment valued at \$528 is being kept for resale.

5. CAPITAL STOCK

	May 31 2003	November 30 2002
Authorized in unlimited number and without par value:		
Common shares		
Preferred shares issuable in one or more series		
Issued:		
30,810,043 common shares		
(30,785,813 at November 30, 2002)	\$ 139,342	\$ 139,223

a) Stock-based compensation and other stock-based payments

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

	Second Quarter		Six Months	
	2003	2002	2003	2002
Net loss as reported	\$ (6,925)	\$ (65)	\$ (12,529)	\$ (1,696)
Estimated stock-based compensation costs	(463)	(51)	(610)	(68)
<i>Pro forma</i> net loss	\$ (7,388)	(116)	(13,139)	\$ (1,764)
<i>Pro forma</i> net loss per share	\$ (0.24)	\$ —	\$ (0.43)	\$ (0.06)

The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model for grants attributed since December 1, 2001, 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 option life of 6 years. The weighted-average fair value of the 115,000 and 165,000 options granted during the three and six-month periods ended May 31, 2003 is \$2.73 and \$2.64 respectively. In regard to Celmed BioSciences, a private company, the assumptions are as follows: risk-free interest rate ranging from 4.62% to 5.16%, expected dividend yield of nil, no expected volatility and expected option life of 6 years. Celmed did not grant any options during the six-month period ended May 31, 2003.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Three and six-month periods ended May 31, 2003

(in thousands of dollars, except per share amounts) (Unaudited)

5. CAPITAL STOCK (continued)

a) Stock-based compensation and other stock-based payments (continued)

The Black-Scholes model, used by the Company to calculate option values, like 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.

b) Earnings per share

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

	Second Quarter		Six Months	
	2003	2002	2003	2002
Weighted average number of outstanding shares	30,797,084	30,728,720	30,792,856	30,483,025
Number of shares which can be exercised, net of potential share buyback	56,656	739,250	52,613	778,943
Weighted average number of shares used for the calculation of the diluted earnings per share	30,853,740	31,467,970	30,845,469	31,261,968



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Three and six-month periods ended May 31, 2003

(in thousands of dollars, except per share amounts) (Unaudited)

6. SEGMENTED INFORMATION

	Therapeutic peptides	Cell therapy	Other segments	Intersegment adjustments and eliminations	Total
Second quarter ended May 31, 2003					
Revenue from external customers	\$ 15	\$ —	\$ —	\$ —	\$ 15
Intersegment revenues	38	—	—	(38)	—
Net earnings (net loss)	(4,348)	(4,442)	159	1,706	(6,925)
Total assets	64,775	54,361	3,195	(97)	122,234
Six months ended May 31, 2003					
Revenue from external customers	\$ 110	\$ —	\$ —	\$ —	\$ 110
Intersegment revenues	76	—	—	(76)	—
Net earnings (net loss)	(7,921)	(7,173)	(190)	2,755	(12,529)
Total assets	64,775	54,361	3,195	(97)	122,234

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	Therapeutic peptides	Cell therapy	Other segments	Intersegment adjustments and eliminations	Total
Second quarter ended May 31, 2002					
Revenue from external customers	\$ —	\$ —	\$ 49	\$ —	\$ 49
Intersegment revenues	462	—	—	(462)	—
Net earnings (net loss)	(4,647)	(1,777)	608	5,751	(65)
Total assets	83,962	62,104	6,148	(636)	151,578
Six months ended May 31, 2002					
Revenue from external customers	\$ 3,270	\$ —	\$ 97	\$ —	\$ 3,367
Intersegment revenues	924	—	—	(924)	—
Net earnings (net loss)	(6,766)	(3,279)	432	7,917	(1,696)
Total assets	83,962	62,104	6,148	(636)	151,578



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Three and six-month periods ended May 31, 2003

(in thousands of dollars, except per share amounts) (Unaudited)

7. SUPPLEMENTAL CASH FLOW INFORMATION

The consolidated statement of cash flows represents the payments related to each of the operations, financing and investment activities. During the three-month period ended May 31, 2003, acquisitions of property, plant and equipment of \$51 were financed by accounts payable and accrued liabilities. In addition, acquisitions of property, plant and equipment of \$335 included in accounts payable and accrued liabilities as at February 28, 2003 as well as \$304 of property, plant and equipment and \$58 of other assets, which were included in accounts payable and accrued liabilities as at November 30, 2002, were paid during the quarter following these dates.

Listing

Toronto Stock Exchange

Symbol

TH

Number of shares outstanding

30,810,043 on July 14, 2003

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