



Quarterly Report 2003

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THERATECHNOLOGIES. DISEASE-FOCUSED, SOLUTION-ORIENTED.



• Thera
technologies

MESSAGE TO SHAREHOLDERS

Since our last report, we have reached key milestones in our clinical development program for ThGRF and made significant progress in our diabetes and osteoporosis programs.

ThGRF. COPD wasting study: Severe wasting (muscle depletion) secondary to chronic obstructive pulmonary disease (COPD) affects an estimated 3 million patients in the US, Europe and Japan. Theratechnologies' Phase II study aims to evaluate the effect of ThGRF in treating these patients. Clinical results are expected in October.

Hip fracture wasting study: The Phase II study aimed at evaluating the therapeutic potential of ThGRF in treating patients suffering from wasting following hip fracture surgery is progressing well. Enrolment is completed and clinical results should be disclosed before the end of the year.

HIV-lipodystrophy study: The Phase II study exploring the metabolic effects of ThGRF is ongoing. The results from this study are expected in the first quarter of 2004.

Diabetes. During the past quarter, we have gained prominence in the field of diabetes by signing a research and licensing agreement with Johnson & Johnson Pharmaceutical Research & Development involving our discovery platform Exopep. Under the terms of the agreement, which provide for research and regulatory milestone payments as well as royalties, we will collaborate with this American company to discover a lead compound for an undisclosed target. Johnson & Johnson will conduct all development and marketing activities. Diabetes is a very promising therapeutic field for Theratechnologies and we have several projects underway, including a GLP-1 analogue which is expected to enter clinical trials in 2004.

Osteoporosis. This program is based on the development of a transdermal formulation of parathormone (PTH), known for its bone-forming effects. We expect to launch a first feasibility study in humans for the transdermal administration of PTH using Macroflux™ in the treatment of osteoporosis before the end of the year.

Scientific presentations. In August, Dr. Thierry Aribat, Vice President and Chief Scientific Officer, made a presentation at the 18th International Diabetes Federation Congress in Paris on the results from the Phase II study evaluating the safety of ThGRF in diabetics and its ability to lower Non-HDL cholesterol.

Corporate presentations. September was an active month for corporate presentations. We presented a clinical update on our development programs to some twenty analysts in Toronto, in preparation for the upcoming results of the Phase II clinical studies. We also made presentations before the financial community at the Orion Securities 8th Annual Healthcare Conference held in Toronto, at the UBS Global Life Sciences Conference in New York and at BioContact in Quebec City. Celmed BioSciences, our cell therapy subsidiary, also made presentations at the Orion and BioContact conferences.

Board of Directors. We announced with regret the resignation of Francis Bellido from the Board of Directors. Mr. Bellido joined the Board in 1998. His extensive experience in the biopharmaceutical industry allowed him to make a strong contribution to the development of Theratechnologies over the years. Mr. Bellido's resignation is related to his recent decision to leave SGF Santé where he was President and Chief Operating Officer.

In closing, our clinical Phase II program for ThGRF is well advanced and our diabetes and osteoporosis programs are also progressing well. Through all these activities, we are steadily making a name for Theratechnologies in the fields of endocrinology and metabolism.

MANAGEMENT'S DISCUSSION AND **ANALYSIS** OF RESULTS OF OPERATIONS 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 August 31, 2003 amounted to \$941,000, compared to \$1,381,000 for the same period in 2002. This variance is due to a reduction in interest revenues from the Company's decreased cash position since 2002, which totalled \$80,468,000 at August 31, 2003 compared to \$108,856,000 at the same date in 2002.

R&D activities. Consolidated research and development (R&D) expenditures, before tax credits and grants, totalled \$5,871,000 for the third quarter of 2003, compared to \$6,152,000 for the same period in 2002. For the nine-month period ended August 31, 2003, research and development (R&D) expenditures, before tax credits and grants, totalled \$17,337,000, compared to \$18,741,000 in 2002. Theratechnologies and Celmed invested \$4,045,000 and \$1,826,000, respectively, in R&D for the three-month period ended August 31, 2003.

Tax credits and grants. For the third quarter of 2003, tax credits and grants totalled \$297,000, compared to \$837,000 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 \$2,367,000 for the three-month period ended August 31, 2003, compared to an amount of \$2,305,000 for the same period in 2002. The Company maintained these expenses at a stable level, that is 28.7% of costs and expenses before tax credits and grants, compared to 27.3% in 2002.

Net results. Consequently, for the three-month period ended August 31, 2003, the Company recorded an operating loss of \$7,000,000, compared to an operating loss of \$6,239,000 in 2002. The net loss was \$6,342,000, compared to \$4,833,000 in 2002. The lower quarterly loss in 2002 reflects gains on investments in companies and gains on dilution totalling \$919,000.

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

LIQUIDITY AND CAPITAL RESOURCES

Theratechnologies has maintained a sound cash position. On a consolidated basis, at August 31, 2003, cash and cash equivalents as well as bonds amounted to \$80,468,000 and tax credits and grants receivable amounted to \$662,000, for a total of \$81,130,000, compared to \$105,042,000 at November 30, 2002. Liquidities, tax credits and grants receivable totalled \$47,178,000 for Theratechnologies and \$33,952,000 for Celmed at August 31, 2003. At May 31, 2003, consolidated liquidities as well as tax credits and grants receivable totalled \$86,715,000, that is \$50,844,000 for Theratechnologies and \$35,871,000 for Celmed.

For the period ended August 31, 2003, the burn rate, excluding changes in operating assets and liabilities, reached \$6,232,000, that is \$4,260,000 for Theratechnologies and \$1,972,000 for Celmed.

At October 15, 2003, the number of shares issued and outstanding reached 30,845,043 common shares, while outstanding options granted under the stock option plan reached 2,657,498. In addition, 4,880,000 warrants were outstanding.

RISKS AND UNCERTAINTIES

- 4 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 on the Company's 2002 Annual Report to obtain a complete analysis of risks and uncertainties.

(signed)

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

(signed)

Marie-Noël Colussi, CA
Vice President, Finance

October 2003

CONSOLIDATED BALANCE SHEET

| (in thousands of dollars) | August 31 2003 (Unaudited) | November 30 2002 (Audited) |
|---|----------------------------------|----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,632 | \$ 196 |
| Bonds | 42,989 | 39,098 |
| Accounts receivable | 408 | 608 |
| Tax credits and grants receivable | 662 | 2,135 |
| Research supplies | 3,134 | 1,993 |
| Prepaid expenses | 851 | 543 |
| | <u>50,676</u> | <u>44,573</u> |
| Bonds | 34,847 | 63,613 |
| Investments in companies (note 2) | 2,883 | 3,517 |
| Property, plant and equipment | 6,542 | 7,549 |
| Other assets | 20,460 | 21,246 |
| | <u>\$ 115,408</u> | <u>\$ 140,498</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 6,410 | \$ 9,161 |
| Deferred gain | 3,762 | 3,762 |
| Future income taxes | 3,114 | 3,148 |
| Non-controlling interest | 18,109 | 21,791 |
| Shareholders' equity: | | |
| Capital stock (note 5) | 139,471 | 139,223 |
| Contributed surplus | 108 | 108 |
| Deficit | (55,566) | (36,695) |
| | <u>84,013</u> | <u>102,636</u> |
| | <u>\$ 115,408</u> | <u>\$ 140,498</u> |

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See accompanying notes to consolidated financial statements.



CONSOLIDATED STATEMENT OF EARNINGS

Periods ended August 31

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

| | Third Quarter | | Nine Months | |
|--|---------------|------------|-------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| Revenues: | | | | |
| Royalties, technologies and other | \$ 12 | \$ 63 | \$ 122 | \$ 3,430 |
| Interest | 929 | 1,318 | 2,987 | 3,935 |
| | 941 | 1,381 | 3,109 | 7,365 |
| Costs and operating expenses: | | | | |
| Research and development | 5,871 | 6,152 | 17,337 | 18,741 |
| Tax credits and grants | (297) | (837) | (1,019) | (2,147) |
| | 5,574 | 5,315 | 16,318 | 16,594 |
| General and administrative (note 3) | 1,819 | 1,865 | 5,429 | 5,136 |
| Selling and market development | 217 | 218 | 624 | 783 |
| Patents and amortization of other assets | 331 | 222 | 1,078 | 758 |
| | 7,941 | 7,620 | 23,449 | 23,271 |
| 6 Operating loss before undernoted items | (7,000) | (6,239) | (20,340) | (15,906) |
| Restructuring costs (note 4) | — | — | (1,745) | — |
| Proportionate share in loss of a company under significant influence | (312) | (358) | (1,274) | (933) |
| Gains on investments in companies and gains on dilution | — | 919 | 772 | 8,488 |
| Loss before taxes and non-controlling interest | (7,312) | (5,678) | (22,587) | (8,351) |
| Foreign income tax | — | — | — | (326) |
| Future income taxes | 43 | (28) | 34 | 16 |
| Non-controlling interest | 927 | 873 | 3,682 | 2,132 |
| Net loss | \$ (6,342) | \$ (4,833) | \$ (18,871) | \$ (6,529) |
| Basic and diluted loss per share (note 5b) | \$ (0.21) | \$ (0.16) | \$ (0.61) | \$ (0.21) |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF DEFICIT

Nine-month periods ended August 31

(in thousands of dollars) (Unaudited)

| | 2003 | 2002 |
|------------------------------|-------------|-------------|
| Deficit, beginning of period | \$ (36,695) | \$ (20,511) |
| Net loss | (18,871) | (6,529) |
| Share issue costs | — | (1,848) |
| Deficit, end of period | \$ (55,566) | \$ (28,888) |

See accompanying notes to consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

Periods ended August 31

(in thousands of dollars) (Unaudited)

| | Third Quarter | | Nine Months | |
|--|---------------|------------|-------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| Cash flows from operating activities: | | | | |
| Net loss | \$ (6,342) | \$ (4,833) | \$ (18,871) | \$ (6,529) |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment and write-off | 467 | 385 | 2,013 | 861 |
| Amortization of other assets and write-off | 301 | 181 | 1,026 | 677 |
| Amortization of deferred gains | — | (54) | — | (163) |
| Proportionate share in loss of a company under significant influence | 312 | 358 | 1,274 | 933 |
| Non-controlling interest | (927) | (873) | (3,682) | (2,132) |
| Future income taxes | (43) | 28 | (34) | (16) |
| Gains on investments in companies and gains on dilution | — | (919) | (772) | (8,488) |
| | (6,232) | (5,727) | (19,046) | (14,857) |
| Change in operating assets and liabilities: | | | | |
| Interest receivable on bonds | (125) | 235 | 491 | (1,314) |
| Accounts receivable | 214 | 38 | 200 | (79) |
| Tax credits and grants receivable | 1,154 | 345 | 1,473 | (1,170) |
| Research supplies | 156 | (532) | (1,141) | (1,149) |
| Prepaid expenses | (78) | (294) | (308) | (203) |
| Accounts payable and accrued liabilities | 380 | (1,583) | (2,417) | (979) |
| | 1,701 | (1,791) | (1,702) | (4,894) |
| | (4,531) | (7,518) | (20,748) | (19,751) |
| Cash flows from financing activities: | | | | |
| Share issue | 129 | (4) | 248 | 30,442 |
| Share issue costs | — | — | — | (1,848) |
| | 129 | (4) | 248 | 28,594 |
| Cash flows from investing activities: | | | | |
| Addition to property, plant and equipment | (106) | (1,081) | (1,306) | (4,209) |
| Disposal of property, plant and equipment | 24 | — | 24 | — |
| Addition to other assets | (72) | (179) | (298) | (439) |
| Acquisition of bonds | (6,892) | (2,990) | (10,091) | (31,137) |
| Disposal of bonds | 8,100 | 15,825 | 34,475 | 39,335 |
| Disposal of warrants in a company | — | — | — | 77 |
| Disposal of stocks in a company | — | — | 132 | — |
| | 1,054 | 11,575 | 22,936 | 3,627 |
| Net change in cash and cash equivalents | (3,348) | 4,053 | 2,436 | 12,470 |
| Cash and cash equivalents, beginning of period | 5,980 | 10,858 | 196 | 2,441 |
| Cash and cash equivalents, end of period | \$ 2,632 | \$ 14,911 | \$ 2,632 | \$ 14,911 |

See note 7 for additional information on cash flows.

See accompanying notes to consolidated financial statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine-month periods ended August 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

| | August 31 2003 | November 30 2002 |
|---|-------------------|---------------------|
| Ecopia BioSciences Inc. (market value: \$2,206; \$1,408 in 2002) | \$ 1,208 | \$ 1,314 |
| Andromed Inc. (market value: \$5,197; \$7,995 in 2002) | 1,675 | 2,203 |
| | \$ 2,883 | \$ 3,517 |

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 no foreign exchange gain for the third quarter of 2003 (gain of \$39 in 2002), and a gain of \$286 for the nine-month period ended August 31, 2003 (loss of \$36 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 workforce 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 nine-month periods ended August 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 \$504 is being kept for resale.

5. CAPITAL STOCK

| | August 31 2003 | November 30 2002 |
|---|-------------------|---------------------|
| Authorized in unlimited number and without par value: | | |
| Common shares | | |
| Preferred shares issuable in one or more series | | |
| Issued: | | |
| 30,845,043 common shares | | |
| (30,785,813 at November 30, 2002) | \$ 139,471 | \$ 139,223 |

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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.

| | Third Quarter | | Nine Months | |
|--|---------------|------------|-------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| Net loss as reported | \$ (6,342) | \$ (4,833) | \$ (18,871) | \$ (6,529) |
| Estimated stock-based compensation costs | (239) | (136) | (848) | (204) |
| Pro forma net loss | \$ (6,581) | \$ (4,969) | \$ (19,719) | \$ (6,733) |
| Pro forma net loss per share | \$ (0.21) | \$ (0.16) | \$ (0.64) | \$ (0.22) |

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 165,000 options granted during the nine-month period ended August 31, 2003 is \$2.64. In regard to Celmed BioSciences, a private company, the assumptions are as follows: risk-free interest rate ranging from 3.81% to 5.16%, expected dividend yield of nil, no expected volatility and expected option life of 6 years. Celmed granted 320,000 options with a weighted-average fair value of \$1.01 for the nine-month period ended August 31, 2003.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Three and nine-month periods ended August 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, 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.

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:

| | Third Quarter | | Nine Months | |
|--|---------------|------------|-------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| Weighted average number of outstanding shares | 30,821,076 | 30,749,942 | 30,802,331 | 30,572,647 |
| Number of shares which can be exercised, net of potential share buyback | 218,041 | 257,699 | 107,935 | 605,195 |
| Weighted average number of shares used for the calculation of the diluted earnings per share | 31,039,117 | 31,007,641 | 30,910,266 | 31,177,842 |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Three and nine-month periods ended August 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 |
|--|----------------------|--------------|----------------|---|----------|
| Third quarter ended August 31, 2003 | | | | | |
| Revenue from external customers | \$ 12 | \$ — | \$ — | \$ — | \$ 12 |
| Intersegment revenues | 38 | — | — | (38) | — |
| Net loss | (4,544) | (2,415) | (310) | 927 | (6,342) |
| Total assets | 60,868 | 51,958 | 2,883 | (301) | 115,408 |
| Nine months ended August 31, 2003 | | | | | |
| Revenue from external customers | \$ 122 | \$ — | \$ — | \$ — | \$ 122 |
| Intersegment revenues | 114 | — | — | (114) | — |
| Net loss | (12,465) | (9,588) | (500) | 3,682 | (18,871) |
| Total assets | 60,868 | 51,958 | 2,883 | (301) | 115,408 |

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| | Therapeutic peptides | Cell therapy | Other segments | Intersegment adjustments and eliminations | Total |
|--|----------------------|--------------|----------------|---|----------|
| Third quarter ended August 31, 2002 | | | | | |
| Revenue from external customers | \$ 15 | \$ — | \$ 48 | \$ — | \$ 63 |
| Intersegment revenues | 370 | — | — | (370) | — |
| Net loss | (4,042) | (2,273) | (310) | 1,792 | (4,833) |
| Total assets | 79,307 | 65,974 | 4,073 | (1,277) | 148,077 |
| Nine months ended August 31, 2002 | | | | | |
| Revenue from external customers | \$ 3,286 | \$ — | \$ 144 | \$ — | \$ 3,430 |
| Intersegment revenues | 1,293 | — | — | (1,293) | — |
| Net loss | (10,809) | (5,551) | (789) | 10,620 | (6,529) |
| Total assets | 79,307 | 65,974 | 4,073 | (1,277) | 148,077 |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Three and nine-month periods ended August 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 August 31, 2003, acquisitions of property, plant and equipment of \$28 were financed by accounts payable and accrued liabilities. In addition, acquisitions of property, plant and equipment of \$51 included in accounts payable and accrued liabilities as at May 31, 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

30,845,043 on October 15, 2003

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