

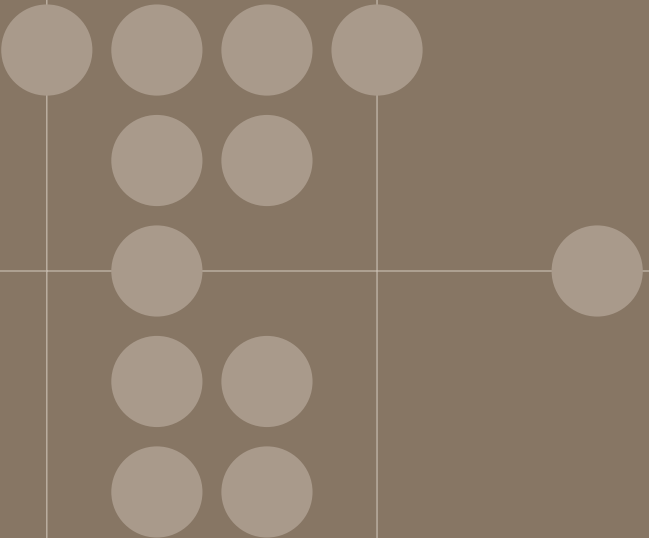
2002

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Quarterly Report



Thera  
technologies





## Message to Shareholders and Financial Results

During the second quarter of 2002, Theratechnologies achieved key milestones in its clinical development program, completing as expected two Phase II clinical trials for its lead peptide, ThGRF.

### Clinical advances

During this quarter, Theratechnologies disclosed the results of a Phase II clinical trial to determine the efficacy and safety of the ThGRF (TH 9507) peptide on the immune response of elderly people to influenza vaccine. This study, aimed at determining ThGRF's potential to improve the immune system of elderly patients, demonstrated emphatically that ThGRF has a pronounced positive impact on cell-mediated immune response and an excellent safety profile. The drug's potential in the field of immunology rests on its ability to stimulate T-cell function. In light of these conclusive results, Theratechnologies is currently evaluating specific clinical indications such as viral infections in elderly patients, immunodeficiency following cancer chemotherapy and AIDS.

Moreover, Theratechnologies announced the results of the Phase II clinical trial on the efficacy and safety of ThGRF in sleep maintenance insomnia. Although the results did not produce clear evidence of an effect on sleep parameters, the study involving 83 insomnia patients affected by poor daytime performance demonstrated a statistically significant and marked improvement of daytime vigilance, as well as an excellent safety profile.

Based on an in-depth analysis of the results on sleep parameters, the Company has decided not to pursue the development of ThGRF as a sedative agent. However, the results on vigilance corroborate the Phase IIa results obtained in 2001, which had already shown a positive effect on vigilance in healthy volunteers. This supports recent studies on natural GRF and points to ThGRF's potential to improve cognitive function in conditions related to insomnia, aging and even mild cognitive impairment. At present, the Company is consulting with scientific and regulatory advisors in order to plan the next clinical stage.

In accordance with its clinical development program, Theratechnologies intends to complete the three other ongoing Phase II clinical trials of ThGRF in anabolic indications such as chronic obstructive pulmonary disease and hip fractures, as well as type II diabetes (safety study).

### Awards

During the last quarter, Dr. André de Villers, Vice Chairman of the Board of Theratechnologies, was named emeritus member of BIOQuébec's Excelcia Club. For its part, Theratechnologies received the Genesis 2002 award from the same organization in the Entrepreneurship Life Science category. Concurrently, Theratechnologies was designated as a finalist in the Mercuriades competition held by the *Chambre de commerce du Québec* in the Development and Research in Technological Innovation category.



## Celmed BioSciences

Celmed presented before the American Association of Neurological Surgeons (AANS) results of a study conducted by its researchers in California, involving one Parkinson's patient. In this study, adult neural stem cells harvested from the patient's own central nervous system were used to treat his condition. Three years after the procedure, the patient's symptoms still show an 80% improvement.

Furthermore, Celmed's technology, Theralux<sup>®</sup>, was featured in the plenary section of the May 15<sup>th</sup> and July 15<sup>th</sup>, 2002 issues of the prestigious scientific magazine *Blood*. Both articles outline positive results from the Theralux<sup>®</sup> photodynamic process in the treatment of graft-versus-host disease (GvHD).

## Consolidated financial results

Revenues for the second quarter ended May 31, 2002 were \$1,436,000, compared to \$795,000 for the same period in 2001, an increase of 81%. The increase results mainly from interest revenues, which were 101% higher than those of 2001, because of the Company's increased cash position.

For the second quarter ended May 31, 2002, Theratechnologies invested \$5,999,000 in research and development expenditures, before tax credits and grants, compared to \$2,248,000 in 2001. This 167% increase results from the overall acceleration of the Company's activities, including five Phase II clinical trials for ThGRF, two of which produced results in May and June 2002, and from the increased activities of its subsidiary Celmed BioSciences.

General and administrative expenses, selling and market development expenses, cost of sales, patents and amortization of other assets reached \$2,487,000 for the second quarter, compared to \$1,669,000 for the same period in 2001. These increased expenses essentially result from measures taken by Celmed to set up its own resources.

During the second quarter, Theratechnologies realized gains on participations and dilution totaling \$5,979,000 which are divided into two components:

- A gain of \$5,068,000 as a result of the exercise of all warrants by its holder, following which the Company delivered, during the second quarter, 7,416,275 common shares of Ecopia BioSciences.
- A gain on dilution of \$911,000 mainly following the issue of shares by Andromed to third parties. Hence, the Company's share in Andromed is 34% at May 31, 2002.

Consequently, the Company recorded, for the second quarter of 2002, a loss of \$6,738,000 before gains on investments in companies and gain on dilution, compared to \$2,936,000 in 2001. Therefore, the consolidated net loss reached \$65,000, or \$0.00 per share, for the second quarter, compared to net earnings of \$2,832,000, or \$0.10 per share, for the same period in 2001.



## **Message to Shareholders and Financial Results** (continued)

Theratechnologies presents a strong financial position. Indeed, at May 31, 2002, cash and cash equivalents as well as bonds amounted to \$117,873,000 and tax credits and grants receivable amounted to \$2,966,000 for a total amount of \$120,839,000, compared to \$104,721,000 at November 30, 2001. At May 31, 2002, the Company's cash position and tax credits reached \$70,416,000, while Celmed's cash position reached \$50,423,000.

Property, plant and equipment expenses reached \$6,332,000 at May 31, 2002 compared to \$2,733,000 at November 30, 2001. Additions to property, plant and equipment for the quarter amounted to \$2,688,000. Most of these expenses, that is \$1,959,000, were incurred by Celmed to purchase equipment dedicated to its activities.

At July 16, 2002, the number of shares issued and outstanding reached 30,750,302 common shares, while outstanding options granted under the stock option plan reached 2,357,500. In addition, 4,880,000 warrants were also outstanding.

On December 1, 2001, the Company adopted in advance the recommendations in Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", issued by The Canadian Institute of Chartered Accountants (see note 2 of Consolidated Financial Statements).

**(Signed)**

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

July 2002



## Consolidated Balance Sheet

(in thousands of dollars)	May 31 2002 <i>(Unaudited)</i>	November 30 2001 <i>(Audited)</i>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,858	\$ 2,441
Bonds	34,349	49,161
Accounts receivable	830	713
Tax credits and grants receivable	2,966	1,451
Inventories and research supplies	1,766	1,149
Prepaid expenses	580	671
	<u>51,349</u>	<u>55,586</u>
Bonds	72,666	51,668
Investments in companies (note 4)	6,149	16,782
Property, plant and equipment (note 5)	6,332	2,733
Other assets	15,082	15,388
	<u>\$ 151,578</u>	<u>\$ 142,157</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,308	\$ 7,827
Deferred gains	3,615	3,724
Future income taxes	1,416	1,460
Warrants	—	17,550
Non-controlling interest	22,230	23,489
Shareholders' equity:		
Capital stock (note 6)	139,064	108,618
Deficit	(24,055)	(20,511)
	<u>115,009</u>	<u>88,107</u>
	<u>\$ 151,578</u>	<u>\$ 142,157</u>

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	
	2002	2001	2002	2001
Revenues:				
Sales and research	\$ —	\$ 54	\$ —	\$ 388
Royalties, technologies and other	49	51	3,367	183
Interest	1,387	690	2,617	1,460
	1,436	795	5,984	2,031
Costs and expenses:				
Research and development	5,999	2,248	12,589	4,347
Tax credits and grants	(663)	(469)	(1,310)	(938)
	5,336	1,779	11,279	3,409
General and administrative	1,921	1,215	3,271	2,378
Selling and market development	310	264	565	522
Cost of sales	—	27	—	232
Patents and amortization of other assets	256	163	536	315
	7,823	3,448	15,651	6,856
Proportionate share in loss of companies under significant influence	(351)	(283)	(575)	(470)
Loss before gains on investments in companies and gain on dilution	(6,738)	(2,936)	(10,242)	(5,295)
Gains on investments in companies and gain on dilution	5,979	5,768	7,569	5,768
Earnings (loss) before undernoted items	(759)	2,832	(2,673)	473
Foreign income tax	—	—	326	—
Future income taxes	(12)	—	(44)	—
Non-controlling interest	682	—	1,259	—
Net earnings (net loss)	\$ (65)	\$ 2,832	\$ (1,696)	\$ 473
Basic and diluted earnings (loss) per share	\$ —	\$ 0.10	\$ (0.06)	\$ 0.02
Weighted average number of common shares outstanding	30,728,720	27,528,557	30,483,025	27,497,783

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Deficit

Six-month periods ended May 31 (in thousands of dollars) (Unaudited)			
	2002		2001
Deficit, beginning of period	\$	(20,511)	\$ (47,207)
Net earnings (net loss)		(1,696)	473
Share issue costs		(1,848)	—
Deficit, end of period	\$	(24,055)	\$ (46,734)

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	
	2002	2001	2002	2001
Cash flows from operating activities:				
Net earnings (net loss)	\$ (65)	\$ 2,832	\$ (1,696)	\$ 473
Adjustments for:				
Depreciation of property, plant and equipment	272	92	459	180
Amortization of other assets	252	140	496	283
Amortization of deferred gains	(55)	(60)	(109)	(108)
Proportionate share in loss of companies under significant influence	351	283	575	470
Non-controlling interest	(682)	—	(1,259)	—
Future income taxes	(12)	—	(44)	—
Loss on disposal of property, plant and equipment	17	—	17	—
Unrealized exchange gain	—	—	(42)	—
Gains on investments in companies and gain on dilution	(5,979)	(5,768)	(7,569)	(5,768)
	(5,901)	(2,481)	(9,172)	(4,470)
Change in operating assets and liabilities:				
Interest receivable on bonds	(281)	185	(1,549)	(194)
Accounts receivable	1,371	191	(117)	(29)
Tax credits and grants receivable	(751)	18	(1,515)	187
Inventories and research supplies	(217)	(416)	(617)	(536)
Prepaid expenses	60	(80)	91	(66)
Accounts payable and accrued liabilities	550	164	604	(690)
	732	62	(3,103)	(1,328)
	(5,169)	(2,419)	(12,275)	(5,798)
Cash flows from financing activities:				
Share issue	204	955	30,446	1,183
Share issue costs	—	—	(1,848)	—
	204	955	28,598	1,183
Cash flows from investing activities:				
Addition to property, plant and equipment	(2,117)	(416)	(3,128)	(941)
Addition to other assets	(113)	(251)	(260)	(305)
Acquisition of bonds	(13,050)	(1,000)	(28,105)	(10,612)
Disposal of bonds	10,091	11,131	23,510	24,922
Investment in a company	—	(750)	—	(750)
Disposal of warrants in companies	77	2,000	77	2,000
Cash and cash equivalents of Andromed Inc.	—	(99)	—	(99)
	(5,112)	10,615	(7,906)	14,215
Net change in cash and cash equivalents	(10,077)	9,151	8,417	9,600
Cash and cash equivalents, beginning of period	20,935	1,804	2,441	1,355
Cash and cash equivalents, end of period	\$ 10,858	\$ 10,955	\$ 10,858	\$ 10,955

See accompanying notes to consolidated financial statements.



## Notes to Consolidated Financial Statements

Three-month and six-month periods ended May 31, 2002

(in thousands of dollars) (Unaudited)

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### 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. Change in accounting policy

On December 1, 2001, the Company adopted in advance the recommendations in Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", issued by The Canadian Institute of Chartered Accountants. The new recommendations are generally applicable only to awards granted after the date of adoption. The adoption of the new recommendations did not impact the Company's financial statements significantly.

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. However *pro forma* disclosure of net loss and net loss per share is provided as if these awards were accounted for using the fair value method. Consideration paid on the exercise of stock options is credited to share capital.

### 3. Commercialization agreement

The Company recognizes revenues from licensing agreements, royalties, and milestone payments once all conditions pertaining to the related agreements are met. During the period ended February 28, 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. In addition to upfront payments of \$3,255 (\$2,000 US) recognized as revenues during the first quarter, the Company will collect additional payments relating to the achievement of milestones by the Japanese company as well as royalties based on product sales from this company.



## Notes to Consolidated Financial Statements (continued)

Three-month and six-month periods ended May 31, 2002  
(in thousands of dollars) (Unaudited)

### 4. Investments in companies

	May 31, 2002
Ecopia BioSciences Inc. (market value: \$3,045)	\$ 3,579
Andromed Inc. (market value: \$11,594)	2,570
	<u>\$ 6,149</u>

As a result of the exercise of warrants by its holder, the Company disposed of 2,333,725 common shares of Ecopia BioSciences Inc. during the first quarter and 7,416,275 common shares during the second quarter. The Company recorded gains of \$5,068 and \$6,658 respectively for the quarter and the six-month period ended May 31, 2002.

Moreover, during the quarter ended May 31, 2002, the Company realized a gain of \$911 mainly as a result of the issuance of shares to third parties by Andromed Inc.

### 5. Property, plant and equipment

	May 31, 2002		
	Cost	Accumulated depreciation and amortization	Net book value
Machinery and equipment	\$ 5,429	\$ 1,179	\$ 4,250
Leasehold improvements	2,182	100	2,082
	<u>\$ 7,611</u>	<u>\$ 1,279</u>	<u>\$ 6,332</u>

### 6. Capital stock

	May 31 2002	November 30 2001
Authorized in unlimited number and without par value:		
Common shares		
Preferred shares issuable in one or more series		
Issued:		
30,750,302 common shares (27,732,937 at November 30, 2001)	<b>\$ 139,064</b>	\$ 108,618



## Notes to Consolidated Financial Statements

(continued)

Three-month and six-month periods ended May 31, 2002

(in thousands of dollars) (Unaudited)

### a) Stock option plan

The Company does not recognize compensation expense for stock options granted to employees. The table below presents *pro forma* net loss and basic and diluted loss per share as if stock options granted to employees had been accounted for based on the fair value method.

	Second Quarter 2002	Six Months 2002
Net loss as reported	\$ (65)	\$ (1,696)
Estimated stock-based compensation costs	(51)	(68)
<i>Pro forma</i> net loss	\$ (116)	\$ (1,764)
<i>Pro forma</i> basic and diluted loss per share	\$ —	\$ (0.06)

The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions for Theratechnologies: risk free interest rate ranging from 4.67% to 4.99%, expected dividend yield of nil, expected volatility ranging from 36% to 59% and expected option life of 6 years. The weighted-average fair value of the options granted during the three-month and six-month periods ended May 31, 2002 is \$4.61 and \$4.89 respectively. In regard to Celmed BioSciences, a private company, the assumptions are as follows: risk free interest rate ranging from 4.49% to 4.65%, expected dividend yield of nil, no expected volatility and expected option life of 6 years. The weighted-average fair value of the options granted during the three-month and six-month periods ended May 31, 2002 is \$2.61 and \$2.58 respectively. Additional disclosure relating to stock-based compensation is provided in the Company's financial statements as at and for the year ended November 30, 2001.

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.



## Notes to Consolidated Financial Statements (continued)

Three-month and six-month periods ended May 31, 2002  
(in thousands of dollars) (Unaudited)

### 7. Segmented information

As indicated in the consolidated financial results for the year ended November 30, 2001, the segments related to medical devices (Andromed) and bacterial genomics (Ecopia) were combined during the period under "other segments". At May 31, 2001 and for the quarter ended at that date, activities related to the medical devices segment were represented by the investment in Andromed of \$2,838. Revenues from external customers and net loss reached respectively \$52 and \$89 for the quarter and \$392 and \$156 for the six-month period ended May 31, 2001. On March 26, 2001, Andromed completed an initial public offering and the Company ceased to exercise joint control. The proportionate share in the loss of Andromed, from this date to May 31, 2001, was \$193. As regards bacterial genomics, the activities for this segment were represented by the investment in Ecopia of \$14,473 and the proportionate share in loss of a company under significant influence of \$90 for the quarter and \$277 for the six-month period ended May 31, 2001.

	Second Quarter ended May 31, 2002				
	Therapeutic peptides	Cell therapy	Other segments	Intersegment adjustments and eliminations	Total
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-month period ended May 31, 2002				
	Therapeutic peptides	Cell therapy	Other segments	Intersegment adjustments and eliminations	Total
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-month and six-month periods ended May 31, 2002

(in thousands of dollars) (Unaudited)

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### 8. Supplemental cash flow information

The consolidated statement of cash flows represents the payments related to each of the operations, financing and investing activities. During the three-month period ended May 31, 2002, acquisitions of property, plant and equipment and other assets amounting to \$1,335 and \$31 respectively, were financed by accounts payable and accrued liabilities. In addition, acquisition of property, plant and equipment of \$764, which were included in accounts payable and accrued liabilities as at February 28, 2002 as well as \$388 of property, plant and equipment and \$101 of other assets, included in accounts payable and accrued liabilities as at November 30, 2001, were paid during the quarter following these dates.

#### Listing

Toronto Stock Exchange  
(S&P/TSX Composite Index)

#### Symbol

TH

#### Number of shares outstanding

30,750,302 on July 16, 2002

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