

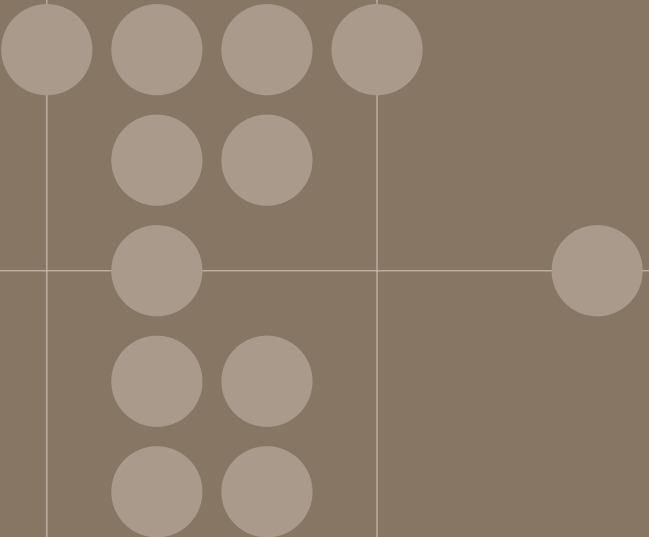
2002

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Quarterly Report



• Thera
technologies





Message to Shareholders

During the quarter, Theratechnologies pursued its clinical development program of the ThGRF peptide. Hence, patient enrollment continued for its Phase II clinical trials in anabolic indications, namely chronic obstructive pulmonary disease and hip fracture, as well as for its safety study of ThGRF in type II diabetics, conducted in the United-States.

Furthermore, Theratechnologies expanded its product portfolio in endocrinology and metabolism with two of its research programs in endocrinology entering the development phase in major indications, specifically osteoporosis and type II diabetes. The Company's excellent financial position, combined with its prudent management approach, allows it to pursue its development activities as planned.

Highlights

Theratechnologies

- September 12th: collaboration with US-based ALZA Corporation to develop a new product for the treatment of osteoporosis combining parathormone (PTH) and ALZA's Macroflux[®] transdermal patch. Under the terms of the agreement, Theratechnologies holds full marketing rights to the transdermal product.
- September 25th: announcement of the addition of a GLP-1 (glucagon-like peptide-1) peptide development program for the treatment of type II diabetes. These peptides, one of which will be selected for development in 2003, emerge from Theratechnologies' internal discovery research team. The Company entered into a partnership agreement with ALZA Corporation to develop a transdermal formulation of the novel peptide. This agreement also provides full marketing rights to Theratechnologies.
- Dr. Gérald André, Ph.D., appointed Vice President, Corporate Development and Dr. Luc Vachon, Ph.D., Vice President, Drug Development. Dr. André, who worked for many years at SGF Santé, a subsidiary of the Société générale de financement du Québec, will manage Theratechnologies' expansion projects and their implementation within the Company. Dr. Vachon, who worked at Sandoz Canada (Novartis), Nordic Merrell Dow Research (Aventis), Cato Research Limited and Cato Research Canada, will be responsible for all preclinical and clinical research activities as well as regulatory affairs and formulation.

Celmed BioSciences

- Researchers and collaborators of Celmed published results in the July 15, 2002 issue of *Blood*, the prestigious journal of the American Society of Hematology (ASH). The study, conducted *in vitro* on immunoreactive T cells, demonstrated that the cells responsible for graft-versus-host disease (GvHD) are selectively eliminated by Celmed's Theralux[™] process, without destroying dormant T cells carrying immune and anti-leukemic functions.
- Mr. Jacques Deforges, MBA, appointed Vice President and Chief Financial Officer of Celmed and Mr. Réal Favreau, LL.L., Vice President, Corporate Affairs and Secretary. Mr. Deforges has a solid background in finance and has held key positions at Boomerang Tracking Inc. and Teleglobe. With expertise in tax and corporate law, Mr. Favreau worked for the Department of Justice and National Revenue as well as at Lavery de Billy and Ogilvy Renault.



Consolidated Financial Statements

Revenues for the third quarter ended August 31, 2002 were \$1,381,000, compared to \$1,238,000 for the same period in 2001, an increase of 11.6%. The increase results mainly from interest revenues, which were 12.9% higher than those of 2001, because of the Company's increased cash position.

During the third quarter ended August 31, 2002, Theratechnologies invested \$6,152,000 in research and development, before tax credits and grants, compared to \$3,422,000 in 2001. This 80% increase reflects Theratechnologies' increased preclinical and clinical development activities as well as the accelerated R&D activities of its subsidiary, Celmed BioSciences.

General and administrative expenses, selling and market development expenses, patents and amortization of other assets reached \$2,305,000 for the third quarter, compared to \$1,595,000 for the same period in 2001. These increased expenses essentially result from measures taken by Celmed to set up its own resources. These same expenditures reached \$2,487,000 during the second quarter of 2002.

During the third quarter, Theratechnologies realized net gains on participation and dilution totaling \$919,000 which are divided into three components:

- A gain on dilution of \$547,000 as a result of the issuance of shares by Andromed Inc. to third parties. Hence, the Company's share in Andromed is 31.7% at August 31, 2002.
- In 2001, the Company acquired, through its subsidiary Celmed BioSciences, the shares of two California corporations in order to acquire their intellectual property. The purchase price of the corporations includes contingent considerations. During the quarter ended August 31, 2002, a contingent consideration of \$6,428,000 was recognized and recorded as an increase to the intellectual property; future income taxes of \$1,728,000 were also recorded and non-controlling interest increased by \$1,804,000. The Company recognized a gain of \$2,896,000, of which \$259,000 was deferred.
- A provision for impairment of \$2,265,000 was recorded in order to reflect the market value of Ecopia BioSciences' shares.

Consequently, the Company recorded, for the third quarter of 2002, a loss of \$6,597,000 before net gains on investments in companies and gains on dilution, compared to a loss of \$3,471,000 for the same period in 2001. Considering these gains, the net loss reached \$4,833,000, or \$0.16 per share, for the third quarter. For the same period in 2001, the Company recorded net earnings of \$31,631,000, or \$1.15 per share, following the gain realized on the creation of its subsidiary Celmed BioSciences.



Consolidated Financial Statements (continued)

During the third quarter of 2002, Theratechnologies maintained a strong cash position. Indeed, at August 31, 2002, cash and cash equivalents as well as bonds amounted to \$108,856,000 and tax credits and grants receivable amounted to \$2,621,000, for a total amount of \$111,477,000, compared to \$104,721,000 at November 30, 2001. At August 31, 2002, the Company's cash position reached \$64,661,000, while Celmed's cash position reached \$44,195,000.

Property, plant and equipment expenses reached \$7,086,000 at August 31, 2002, compared to \$2,733,000 at November 30, 2001. Additions to property, plant and equipment for the quarter amounted to \$1,138,000. Celmed incurred most of these expenses, for an amount of \$1,044,000, in order to purchase equipment dedicated to its activities.

At October 16, 2002, the number of shares issued and outstanding reached 30,749,942 common shares, while outstanding options granted under the stock option plan reached 2,367,500. 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

(Signed)

Marie-Noël Colussi, CA
Vice President, Finance

October 2002



Consolidated Balance Sheet

(in thousands of dollars)	August 31 2002 <i>(Unaudited)</i>	November 30 2001 <i>(Audited)</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,911	\$ 2,441
Bonds	22,887	49,161
Accounts receivable	792	713
Tax credits and grants receivable	2,621	1,451
Inventories and research supplies	2,298	1,149
Prepaid expenses	874	671
	44,383	55,586
Bonds	71,058	51,668
Investments in companies (note 4)	4,073	16,782
Property, plant and equipment (note 5)	7,086	2,733
Other assets (note 6)	21,477	15,388
	\$ 148,077	\$ 142,157
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,752	\$ 7,827
Deferred gains	3,820	3,724
Future income taxes	3,172	1,460
Warrants	—	17,550
Non-controlling interest	23,161	23,489
Shareholders' equity:		
Capital stock (note 7)	139,060	108,618
Deficit	(28,888)	(20,511)
	110,172	88,107
	\$ 148,077	\$ 142,157

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	
	2002	2001	2002	2001
Revenues:				
Sales and research	\$ —	\$ —	\$ —	\$ 388
Royalties, technologies and other	63	71	3,430	254
Interest	1,318	1,167	3,935	2,627
	1,381	1,238	7,365	3,269
Costs and expenses:				
Research and development	6,152	3,422	18,741	7,769
Tax credits and grants	(837)	(565)	(2,147)	(1,503)
	5,315	2,857	16,594	6,266
General and administrative	1,865	1,195	5,136	3,573
Selling and market development	218	188	783	710
Cost of sales	—	—	—	232
Patents and amortization of other assets	222	212	758	527
	7,620	4,452	23,271	11,308
Proportionate share in loss of companies under significant influence	(358)	(257)	(933)	(727)
Loss before net gains on investments in companies and gains on dilution	(6,597)	(3,471)	(16,839)	(8,766)
Net gains on investments in companies and gains on dilution	919	34,761	8,488	40,529
Earnings (loss) before undernoted items	(5,678)	31,290	(8,351)	31,763
Foreign income tax	—	—	(326)	—
Future income taxes	(28)	—	16	—
Non-controlling interest	873	341	2,132	341
Net earnings (net loss)	\$ (4,833)	\$ 31,631	\$ (6,529)	\$ 32,104
Basic earnings (loss) per share	\$ (0.16)	\$ 1.15	\$ (0.21)	\$ 1.17
Diluted earnings per share	\$ —	\$ 1.11	\$ —	\$ 1.13
Weighted average number of common shares outstanding	30,749,942	27,617,702	30,572,647	27,537,022

See accompanying notes to consolidated financial statements.

Consolidated Statement of Deficit

Nine-month periods ended August 31 (in thousands of dollars) (Unaudited)			
	2002		2001
Deficit, beginning of period	\$	(20,511)	\$ (47,207)
Net earnings (net loss)		(6,529)	32,104
Share issue costs		(1,848)	—
Deficit, end of period	\$	(28,888)	\$ (15,103)

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	
	2002	2001	2002	2001
Cash flows from operating activities:				
Net earnings (net loss)	\$ (4,833)	\$ 31,631	\$ (6,529)	\$ 32,104
Adjustments for:				
Depreciation of property, plant and equipment	385	135	844	315
Amortization of other assets	181	190	677	473
Amortization of deferred gains	(54)	(54)	(163)	(162)
Proportionate share in loss of companies under significant influence	358	257	933	727
Non-controlling interest	(873)	(341)	(2,132)	(341)
Future income taxes	28	—	(16)	—
Loss on disposal of property, plant and equipment	—	—	17	—
Unrealized exchange gain	—	—	(42)	—
Net gains on investments in companies and gains on dilution	(919)	(34,761)	(8,488)	(40,529)
	(5,727)	(2,943)	(14,899)	(7,413)
Change in operating assets and liabilities:				
Interest receivable on bonds	235	(435)	(1,314)	(629)
Accounts receivable	38	(110)	(79)	(139)
Tax credits and grants receivable	345	(37)	(1,170)	150
Inventories and research supplies	(532)	(71)	(1,149)	(607)
Prepaid expenses	(294)	16	(203)	(50)
Accounts payable and accrued liabilities	(1,583)	1,018	(979)	328
	(1,791)	381	(4,894)	(947)
	(7,518)	(2,562)	(19,793)	(8,360)
Cash flows from financing activities:				
Cash from issue of shares by subsidiary to third parties	—	58,800	—	58,800
Share issue	(4)	54	30,442	1,237
Share issue costs	—	—	(1,848)	—
	(4)	58,854	28,594	60,037
Cash flows from investing activities:				
Addition to property, plant and equipment	(1,081)	(180)	(4,209)	(1,121)
Addition to other assets	(179)	(60)	(439)	(365)
Acquisition of bonds	(2,990)	(36,263)	(31,095)	(46,875)
Disposal of bonds	15,825	1,149	39,335	26,071
Investment in a company	—	—	—	(750)
Disposal of warrants in companies	—	(100)	77	1,900
Cash and cash equivalents of Andromed Inc.	—	2	—	(97)
	11,575	(35,452)	3,669	(21,237)
Net change in cash and cash equivalents	4,053	20,840	12,470	30,440
Cash and cash equivalents, beginning of period	10,858	10,955	2,441	1,355
Cash and cash equivalents, end of period	\$ 14,911	\$ 31,795	\$ 14,911	\$ 31,795

See accompanying notes to consolidated financial statements.



Notes to Consolidated Financial Statements

Three-month and nine-month periods ended August 31, 2002
(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. 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 nine-month periods ended August 31, 2002
(in thousands of dollars, except per share amounts) (Unaudited)

4. Investments in companies

	August 31, 2002
Ecopia BioSciences Inc. (market value: \$1,314)	\$ 1,314
Andromed Inc. (market value: \$7,396)	2,759
	<u>\$ 4,073</u>

As a result of the exercise of warrants by its holder, the Company disposed of 9,750,000 common shares of Ecopia BioSciences Inc. during the first and second quarters and realized a gain of \$6,658. In addition, a provision for impairment of \$2,265 was recorded to reflect the market value of this company's shares.

Moreover, during the quarters ended May 31, 2002 and August 31, 2002, the Company realized gains of \$911 and \$547 respectively, mainly as a result of the issuance of shares to third parties by Andromed Inc.

5. Property, plant and equipment

	August 31, 2002		
	Cost	Accumulated depreciation and amortization	Net book value
Machinery and equipment	\$ 6,581	\$ 1,499	\$ 5,082
Leasehold improvements	2,168	164	2,004
	<u>\$ 8,749</u>	<u>\$ 1,663</u>	<u>\$ 7,086</u>

6. Other assets

	August 31, 2002
Intellectual property	\$ 20,272
Patent costs	1,013
Deferred development costs	192
	<u>\$ 21,477</u>

In 2001, the Company acquired, through its subsidiary Celmed BioSciences, the shares of two California corporations in order to acquire their intellectual property. The purchase price of the corporations includes contingent considerations. During the quarter ended August 31, 2002, a contingent consideration of \$6,428 was recognized and posted as an increase to the intellectual property; future income taxes of \$1,728 were also recorded and non-controlling interest increased by \$1,804. The Company recognized a gain of \$2,896, of which \$259 was deferred. Refer to note 3 of the financial statements included in the Company's 2001 Annual Report.



Notes to Consolidated Financial Statements

(continued)

Three-month and nine-month periods ended August 31, 2002
(in thousands of dollars, except per share amounts) (Unaudited)

7. Capital stock

	August 31 2002	November 30 2001
Authorized in unlimited number and without par value:		
Common shares		
Preferred shares issuable in one or more series		
Issued:		
30,749,942 common shares		
(27,732,937 at November 30, 2001)	\$ 139,060	\$ 108,618

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 loss per common share as if stock options granted to employees had been accounted for based on the fair value method.

	Third Quarter 2002	Nine Months 2002
Net loss as reported	\$ (4,833)	\$ (6,529)
Estimated stock-based compensation costs	(136)	(204)
<i>Pro forma</i> net loss	\$ (4,969)	\$ (6,733)
<i>Pro forma</i> basic loss per share	\$ (0.16)	\$ (0.22)

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 4.53% to 4.99%, expected dividend yield of nil, expected volatility ranging from 36% to 59% and expected average option life of 6 years. The weighted-average fair value of the options granted during the three-month and nine-month periods ended August 31, 2002 is \$5.79 and \$4.93 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 average option life of 6 years. The weighted-average fair value of the options granted during the three-month and nine-month periods ended August 31, 2002 is \$2.37 and \$2.47 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 nine-month periods ended August 31, 2002
(in thousands of dollars, except per share amounts) (Unaudited)

8. 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 August 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 \$2,581. Revenues from external customers and net loss reached \$386 and \$156 for the nine-month period ended August 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, for the quarter and for the period between March 26, 2001 and August 31, 2001, was respectively \$257 and \$449. 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 \$0 for the quarter and \$277 for the nine-month period ended August 31, 2001.

	Third Quarter ended August 31, 2002				
	Therapeutic peptides	Cell therapy	Other segments	Intersegment adjustments and eliminations	Total
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-month period ended August 31, 2002				
	Therapeutic peptides	Cell therapy	Other segments	Intersegment adjustments and eliminations	Total
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-month and nine-month periods ended August 31, 2002
(in thousands of dollars, except per share amounts) (Unaudited)

9. 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, 2002, acquisitions of property, plant and equipment amounting to \$1,393 were financed by accounts payable and accrued liabilities. In addition, acquisitions of property, plant and equipment and other assets of \$1,335 and \$31 respectively, which were included in accounts payable and accrued liabilities as at May 31, 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

30,749,942 on October 16, 2002

Head Office

Theratechnologies Inc.
2310 Alfred-Nobel Blvd.
Saint Laurent, Quebec
Canada H4S 2A4
Phone: (514) 336-7800
Fax: (514) 336-7242
Web Site: www.theratech.com

Analyst and Institutional Relations

Rosalie Nguyen, CFA
Director, Finance
Phone: (514) 336-4804, ext. 235
Fax: (514) 336-7242
Email: rnguyen@theratech.com

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

Communications and Investor Relations

Patricia Delaney Lussier or
Roxanne Saumur
Phone: (514) 336-7800
Fax: (514) 336-4451
Email: pdelaney@theratech.com or
rsaumur@theratech.com

Printed in Canada