MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis, or MD&A, provides Management's point of view on the financial position of Theratechnologies Inc., on a consolidated basis, as at November 30, 2013 and November 30, 2012. It also provides a review of our performance by comparing the Company's results of operations, on a consolidated basis, for the twelve-month period ended November 30, 2013, or Fiscal 2013, with the twelve-month period ended November 30 2012, or Fiscal 2012, and for Fiscal 2012 with the twelve-month period ended November 30, 2011, or Fiscal 2011. Unless otherwise indicated or unless the context requires otherwise, all references in this MD&A to "Theratechnologies", the "Company", the "Corporation", "we", "our", "us" or similar terms refer to Theratechnologies Inc. and its subsidiaries on a consolidated basis. This MD&A is dated February 26, 2014 and should be read in conjunction with the audited consolidated financial statements and the notes thereto. All monetary amounts set forth in this MD&A are expressed in Canadian dollars, except where otherwise indicated. References to $ and C$ are to Canadian dollars and references to US$ are to U.S. dollars.

Except as otherwise indicated, the financial information contained in this MD&A and in our audited consolidated financial statements has been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. IFRIC refers to International Financial Reporting Interpretation Committee. The audited consolidated financial statements and MD&A have been reviewed by our Audit Committee and approved by our Board of Directors.

In this MD&A, the use of *EGRIFTA*™ refers to tesamorelin for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy regardless of the trade name used for such product in any particular territory. Tesamorelin refers to the use of tesamorelin for the potential treatment of other diseases. *EGRIFTA*® is our registered trademark in the United States and it is used in that country to commercialize tesamorelin for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy.

Forward-Looking Information

This MD&A contains forward-looking statements and forward-looking information, or, collectively, forward-looking statements, within the meaning of applicable securities laws, that are based on our management's belief and assumptions and on information currently available to our management. You can identify forward-looking statements by terms such as "may", "will", "should", "could", "would", "outlook", "believe", "plan", "envisage", "anticipate", "expect" and "estimate", or the negatives of these terms, or variations of them. The forward-looking statements contained in this MD&A include, but are not limited to, statements regarding the commercial distribution of *EGRIFTA*™ outside of the United States, our capacity to solve our manufacture problems and to resume the manufacture of *EGRIFTA*™ and ensure a reliable source of supply, the closing date of the transaction with EMD Serono, Inc., we regaining our commercialization rights to *EGRIFTA*™ in the United States, our capacity to commercialize *EGRIFTA*™ after such closing date and our ability to increase the patient base leading to higher revenues and cash flows and our capacity to find new commercial partners for the European territory.

Forward-looking statements are based upon a number of assumptions and include, but are not limited to, the following: *EGRIFTA*™ will receive approvals in various territories outside the United States, no additional clinical studies will be required by regulatory authorities outside of the United States to obtain these regulatory approvals, *EGRIFTA*™ will be accepted by the marketplace in territories outside of the United States and will be on the list of reimbursed drugs by third-party payors in these territories, the relationships with our commercial partners and third-party suppliers will be conflict-free, the United States Food and Drug Administration will not issue any order or decision having the effect of suspending the commercialization of *EGRIFTA*™ in the United States

before and after May 1, 2014, the *EGRIFTA*™ shortage will have a limited impact on market acceptance of the product by patients and healthcare professionals and we will be able to increase the patient base for *EGRIFTA*™, we will resume the manufacture of *EGRIFTA*™, we will have continuous supply of *EGRIFTA*™, we will have all the infrastructure necessary to commercialize *EGRIFTA*™ in the United States after the closing date and we will be able to find and enter into agreements with commercial partners for Europe on commercially reasonable terms.

Forward-looking statements are subject to a variety of risks and uncertainties, many of which are beyond our control that could cause our actual results to differ materially from those that are disclosed in or implied by the forward-looking statements contained in this MD&A. We refer potential investors to the "Risks and Uncertainties" section of this MD&A. The reader is cautioned to consider these and other risks and uncertainties carefully and not to put undue reliance on forward-looking statements. Forward-looking statements reflect current expectations regarding future events and speak only as of the date of this MD&A and represent our expectations as of that date.

We undertake no obligation to update or revise the information contained in this MD&A, whether as a result of new information, future events or circumstances or otherwise, except as may be required by applicable law.

Business Overview

We are a specialty pharmaceutical company addressing unmet medical needs in metabolic disorders to promote healthy ageing and improved quality of life.

Our first product, *EGRIFTA*™ (tesamorelin for injection), was approved by the United States Food and Drug Administration, or FDA, in November 2010 and is, to date, the only approved therapy for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy. *EGRIFTA*™ is currently marketed in the United States by EMD Serono, Inc., or EMD Serono, pursuant to a collaboration and licensing agreement executed in October 2008, as amended in April 2012, or the EMD Serono Agreement. EMD Serono launched *EGRIFTA*™ on January 10, 2011.

In order to expand the commercial distribution of *EGRIFTA*™, we have granted exclusive commercialization rights for it in other territories as follows: in December 2010 to an affiliate of sanofi, or sanofi, for Latin America, Africa and the Middle East; and in February 2012 to Actelion Pharmaceuticals Canada Inc., or Actelion, for Canada. We are responsible for the manufacture of *EGRIFTA*™ and its supply to EMD Serono, sanofi, and Actelion.

We had also previously granted exclusive commercialization rights to Ferrer Internacional S.A., or Ferrer, for Europe, Russia, South Korea, Taiwan, Thailand and certain central Asian countries. However, following an unsuccessful application for the approval of *EGRIFTA*™ in Europe, this agreement was terminated by mutual consent in April, 2013. In so doing, we re-acquired 100% of the commercialization rights of *EGRIFTA*™ in these markets where there are currently no approved treatments for lipodystrophy in HIV-infected patients available.

Our overriding business strategy in 2013 was to focus on *EGRIFTA*™ in order to become cash-flow neutral as soon as possible and we made solid progress. Our use of cash in operating activities was $7,744,000 in 2013 down significantly from $15,634,000 in the prior year. A restructuring of the business in late 2012 and the renegotiation of our lease in April 2013 were important positive factors. Despite the improvement, not everything went as planned. Manufacturing problems surfaced in the first quarter of 2013 that led to in inventory write-downs and other unplanned expenses as well as lower fourth-quarter sales to EMD Serono. A further disappointment was slower than hoped for progress on regulatory approvals in Brazil, Mexico and Canada.

On December 13, 2013, we entered into a termination and transfer agreement with EMD Serono, or EMD Serono Termination Agreement, to regain all rights under the EMD Serono Agreement. The closing of this transaction is expected to occur on May 1, 2014, or Closing Date. We also retained

the services of inVentiv Health to establish and manage our operations in the United States. The services provided by inVentiv Health will include sales force, marketing support, patient communications, regulatory compliance, reimbursement and market access.

Regaining the US commercialization rights to *EGRIFTA*™ will have a significant impact on the nature of our business and, as a consequence, on our financial reporting after the Closing Date. Our revenues will be higher as they will represent the full proceeds of sales of *EGRIFTA*™ to wholesalers. Our expense will likewise expand to encompass all of the marketing and distribution expenses previously incurred by EMD Serono. We will have new financial obligations in the form of debt and royalties payable to EMD Serono, which we expect to pay from operating cash flows. Further information on the EMD Serono Termination Agreement can be found below under "Subsequent Events".

Looking ahead, our biggest opportunity for value creation in 2014 lies in the US market. After regaining the US commercialization rights for *EGRIFTA*™ in May, we will move forward with a specialty pharmaceutical business model that is solely focused on our own product. All US activities will be aimed directly at elevating the importance of treating excess abdominal fat in HIV-infected patients with lipodystrophy, an indication unique to *EGRIFTA*™, for patients, health care providers and third-party payors. Our goal is to increase the patient base, which will ultimately lead to higher revenues and cash flow. We also plan to leverage our US commercial experience to enhance our worldwide partnership initiatives, helping us to drive performance and become more proactive and responsive to partners' needs.

On February 14, 2014, we announced that we expected our inventory of *EGRIFTA*™ to be depleted in a matter of weeks due to a combination of manufacturing delays and issues observed during the production of new batches of *EGRIFTA*™. We further advised that the ensuing depletion of the inventory would result in a shortage of *EGRIFTA*™ and an eventual stock-out and that we were temporarily ceasing to manufacture *EGRIFTA*™. As of the date of this MD&A, we have not resumed the manufacture of *EGRIFTA*™ and are unable to determine a timeline to resume its manufacture and delivery. Resolving the *EGRIFTA*™ manufacturing problems and ensuring that we have a reliable source of supply are immediate priorities for the Company in 2014.

The paragraphs that follow provide more background information and details on the various aspects of our business in Fiscal 2013.

Commercial, Research and Development and Regulatory Activities

United States
EMD Serono began selling *EGRIFTA*™ in the United States in January 2011. We generate revenue from the supply of *EGRIFTA*™ to EMD Serono for re-sale and we receive royalties on their ultimate sales to pharmaceutical distributors. Details of our *EGRIFTA*™ revenue in 2013 can be found in the revenue discussion below.

EMD Serono is currently conducting two Phase 4 clinical trials with *EGRIFTA*™ in the United States in order to fulfil post approval commitments made to the FDA. The first trial is a long-term observational safety study for which we are responsible for 50% of the cost. The second study is to assess whether *EGRIFTA*™ increases the incidence or progression of diabetic retinopathy in diabetic HIV-infected patients with lipodystrophy and excess abdominal fat. For this trial, we are obligated to reimburse EMD Serono for the direct costs involved. Both of the Phase 4 clinical trials are under way and recruiting patients.

Our internal research and development activities in Fiscal 2013 were focused on the *EGRIFTA*™ manufacturing process. In January 2013, we encountered manufacturing problems and suspended production. A revised manufacturing process introduced in May gave rise to quality issues and we announced in September 2013 that we were reverting to the original FDA-approved manufacturing process and undertaking to evaluate changes that could increase overall cycle robustness. The

manufacturing problems had a negative impact on revenues, most notably on sale of goods in the fourth quarter. New supplies of *EGRIFTA*™ became available in December 2013.
Other R&D projects involving *EGRIFTA*™ were aimed at product improvements such as the preparation of a supplemental new drug application, or sNDA, providing for room-temperature storage of *EGRIFTA*™, which was filed by EMD Serono and approved by the FDA in January 2013.

Latin America, Africa and the Middle East
Pursuant to our distribution and licensing agreement with sanofi, or Sanofi Agreement, marketing authorization applications are currently in process in Brazil, Mexico, Argentina, Venezuela and Israel. The largest potential markets for *EGRIFTA*™ in Latin America are Brazil and Mexico; and sanofi is focusing its efforts on these two countries.

The regulatory review process in Brazil slowed in 2013 due to technical deficiencies identified by the Brazilian National Health Surveillance Agency, or ANVISA, at our third-party manufacturer in 2012. ANVISA performed a conformational audit in September 2013 in order to evaluate a series of corrective measures that were implemented to address the technical deficiencies and sanofi is currently waiting for ANVISA's final report. If ANVISA's concerns are satisfied, it is expected to issue a certificate of compliance with Brazil's good manufacturing practices and the review of the clinical part of our marketing authorization application can resume. Based on the information presently available, we are not able to predict timelines for the final review by ANVISA of our marketing authorization application.

In Mexico, although we were expecting a decision in the fourth quarter of 2013, sanofi was recently in communication with the Mexican regulatory authority and is currently awaiting their comments on the *EGRIFTA*™ file. As such, and based on the information presently available, we are not able to predict timelines for the Mexican application.

In Israel and Venezuela the marketing authorization applications have all been delayed because of missing documents and, in Argentina, the authorities have asked that our application be amended and resubmitted. Given the relatively modest commercial importance of these markets, sanofi focused its efforts on Brazil and Mexico in 2013.

An application had also been filed by sanofi in Colombia which was rejected by the authorities in June of 2013 on the basis that additional long-term safety and efficacy studies were deemed to be needed. No decision has been made by sanofi on whether or not to appeal the Colombian decision.

Europe
Throughout 2013 we consulted with key physicians, patient groups, and regulatory experts in Europe and subsequently met with regulators in certain jurisdictions to evaluate our prospects for acceptance should we decide to re-file for approval. The result of these consultations and meetings led us to believe that we do not have a reasonable likelihood of being approved in Europe without obtaining additional clinical data on *EGRIFTA*™. Therefore, we have decided to seek commercial partners who can help us to pursue other options in the short term. Alternatives include filing only in certain countries and dispensing *EGRIFTA*™ by way of named patient programs.

Canada
On March 4, 2013, Health Canada's Therapeutic Products Directorate, or TPD, issued a Notice of Non-compliance-withdrawal for our New Drug submission, or NDS, seeking approval for *EGRIFTA*™ in Canada. On March 25, 2013, we announced the filing of a request for reconsideration of the decision made by TPD and on August 23, 2013 we presented our arguments before a scientific advisory committee established for that purpose by Health Canada. On November 1, 2013, we announced that Health Canada agreed to resume review of our NDS and rescind the previously issued notice of Non-compliance-withdrawal. We are currently pursuing our discussions with TPD but we are not able to predict timelines for a decision on our NDS.

Renegotiation of Corporate Lease

On April 2, 2013, we entered into an amended lease agreement for our corporate headquarters, which resulted in an 85% annual reduction in lease-related cash outlays and shortened the remaining term of the lease from eight years to five years. Further information on the amended lease agreement, can be found below under “Contractual Obligations”.

Other Developments

On January 14, 2013, we announced our intention to voluntarily delist our common shares from the NASDAQ Global Market and the delisting took effect on February 5, 2013. Our common shares continue to trade on the Toronto Stock Exchange under the symbol “TH”.

On January 29 2013, we announced that the United States Patent and Trademark Office, or USPTO, issued a composition of matter patent for TH1173, our second-generation GRF peptide, providing scheduled protection until 2032.

On February 24, 2012, the Superior Court of Québec authorized 121851 Canada Inc. to institute a class action against the Company, a director and a former executive officer and on March 20, 2012, we filed a motion seeking permission to appeal this judgement with the Court of Appeal of Québec. The hearing took place on January 24, 2013 and our motion was dismissed by the Court on July 17, 2013. An application for leave to appeal the decision issued by the Court of Appeal was filed in November 2013 with the Supreme Court of Canada. Such application was approved by the Supreme Court of Canada.

In May 2013, the same plaintiff instituted a second class action based on the same facts and seeking the same conclusion as the first motion except that damages are sought under the Civil Code of Québec instead of the Securities Act (Québec). The parties have agreed to stay this motion until a final decision is issued under the first motion. We intend to contest any class action that the shareholders’ representative could institute since we consider that it would be without merit. Further information on the class action can be found below under “Contingent Liability”.

On July 10, 2013, we exercised our option to acquire 100% of certain melanotransferrin technology and the 50% interest that we did not already own in the short-peptide mimics of melanotransferrin that we discovered as a participant in a discovery and collaboration agreement entered into in November 2010 with Université du Québec à Montréal, Gestion Valeo and Transfert Plus L.P. To date we have assessed the *in vivo* biologic efficacy of these peptides and the results obtained lead us to believe that they have certain anti-tumoral characteristics. We need to conduct further research and development on these peptides, including toxicology and pharmacology studies. This work will only be done when we resume research and development activities.

We were recently informed that our patent for tesamorelin in Brazil, which was to be in effect until 2019, is being judicially challenged by the Brazilian patent office. If the challenge is successful we could lose our patent protection or see the end-date of the patent protection reduced from 2019 to 2016.

Selected Annual Information

Years ended November 30 (in thousands of Canadian dollars, except per share amounts)	2013	2012	2011
Revenue	**$7,553**	**$13,567**	**$14,928**
Research and development expenses, net of tax credits	**$7,371**	**$6,341**	**$10,992**
General and Administrative expenses	**$3,815**	**$5,462**	**$10,823**
Restructuring costs	**$(3,111)**	**$10,702**	**$716**
Loss from operating activities	**$(4,483)**	**$(14,846)**	**$(18,768)**
Net finance income	**$454**	**$911**	**$966**
Net loss	**$(4,055)**	**$(13,940)**	**$(17,730)**
Basic and diluted loss per share	**$(0.07)**	**$(0.23)**	**$(0.29)**

At November 30 (in thousands of Canadian dollars)	2013	2012	2011
Cash and current and non-current bonds	**$12,353**	**$20,503**	**$36,787**
Total assets	**$24,844**	**$36,332**	**$52,873**
Total share capital	**$280,872**	**$280,872**	**$280,488**
Total equity	**$18,528**	**$22,670**	**$36,343**

Operating Results - twelve months ended November 30, 2013 compared to twelve months ended November 30, 2012

Revenue

Our revenues in both years were mainly sales of *EGRIFTA*™ to EMD Serono for re-sale, royalties received from EMD Serono on U.S. sales to customers, and research services, which include milestone payments and the amortization of the initial payment received upon the closing of the agreement with EMD Serono. Consolidated revenue for the twelve months ended November 30, 2013 amounted to $7,553,000 compared to $13,567,000 in Fiscal 2012.

(in thousands of Canadian dollars)	2013	2012
Sale of goods	$2,544	$5,235
Upfront and milestone payments	$1,710	$4,077
Royalties and license fees	$3,299	$4,255
Revenue	**$7,553**	**$13,567**

Revenue generated from sale of goods amounted to $2,544,000 in the twelve-month period ended November 30, 2013 compared to $5,235,000 in Fiscal 2012, reflecting lower shipments to EMD Serono and a lower selling price in Fiscal 2013.

The lower level of shipments was largely due to reductions in EMD Serono's inventory as well as to the manufacturing problems encountered during the year. Having resumed shipments to EMD Serono early in the first quarter of fiscal 2014, future shipments are expected to track patient sales over the long term but they can vary significantly in the short term as a function of EMD Serono's procurement policies.

The lower selling price in 2013 was the result of the introduction of the new single-vial presentation of *EGRIFTA*™ in October 2012. While the *EGRIFTA*™ selling price is now lower than in previous years, our markup in percentage terms remains unchanged.

Royalties, which are almost entirely derived from the sales of *EGRIFTA*™*,* were $3,299,000 in Fiscal 2013 compared to $4,255,000 in Fiscal 2012. The royalties reported in Fiscal 2012 are for the 14-month period from October 1, 2011 to November 30, 2012 as they include royalties actually received in the 12 months ended September 30, 2012 as well as an amount of $699,000 based on management's estimate of the royalties earned on *EGRIFTA*™ sales in October and November 2012. The supply shortages in the fourth quarter of Fiscal 2013 also had a negative impact on royalties.

Revenue also includes the amortization of the initial payment of $27,097,000 received upon the closing of the EMD Serono Agreement. For the twelve-month period ended November 30, 2013, $1,710,000 was recognized as revenue related to the initial payment, compared to $4,077,000 in Fiscal 2012. The amortization amounts are adjusted periodically to allow sufficient time for the development work required under the EMD Serono Agreement that has yet to be completed. At November 30, 2013, the remaining deferred revenue related to this transaction recorded on the consolidated statement of financial position amounted to $2,771,000.

Cost of Sales

For the twelve months ended November 30, 2013, the cost of sales was $3,711,000 compared to $5,056,000 in Fiscal 2012. The cost of sales is made up of cost of goods sold and unallocated production costs. The cost of goods sold component in 2013 amounted to $2,262,000 compared to $4,711,000 in the prior year, reflecting lower sale of goods in Fiscal 2013 as described above. Unallocated production costs were $1,449,000 in Fiscal 2013 compared to $345,000 in the prior year due largely to inventory write downs and other costs associated with the manufacturing problems experienced in 2013.

R&D Expenses

R&D expenses, net of tax credits, amounted to $7,371,000 in the twelve months ended November 30, 2013 compared to $6,341,000 in Fiscal 2012. R&D expenses include our share of expenses for the two Phase 4 clinical trials currently being conducted by EMD Serono. We are responsible for all of the costs associated with the diabetic retinopathy study, which amounted to $3,005,000 in Fiscal 2013 compared to $1,502,000 in the prior year. Our fifty percent share of the long-term safety study was $654,000 in Fiscal 2013 compared to $117,000 in the prior year. R&D expenses in 2013 also included costs associated with our project aimed at improving the manufacturing process for *EGRIFTA*™, while those of 2012 included the development costs of TH1173 and a new formulation of *EGRIFTA*™. The remaining R&D expenses in both years are mainly costs associated with helping our commercial partners to pursue regulatory approvals in their respective jurisdictions.

Selling and Market Development Expenses

Selling and market development expenses amounted to $250,000 for the twelve months ended November 30, 2013, compared to $852,000 in Fiscal 2012, reflecting cost savings from restructuring initiatives in Fiscal 2012.

General and Administrative Expenses

General and administrative expenses amounted to $3,815,000 in the twelve months ended November 30, 2013 compared to $5,462,000 in Fiscal 2012. The expenses in 2013 were lower largely as a result of the restructuring initiatives in 2012.

Restructuring Costs

In Fiscal 2013, we recovered previously expensed restructuring costs in the amount of $3,111,000. This was largely as a result of the lease amendment agreement entered into in April 2013, which eliminated the remaining $3,133,000 of an onerous lease provision. The onerous lease provision was originally established in the amount of $4,055,000 as part of the 2012 restructuring initiatives and was the principal element of the $6,176,000 in restructuring costs incurred in the first nine months of that year.

Restructuring costs, which include provisions and write-downs, are described in more detail in note 20 (b) “Other information -- Restructuring costs” of our audited consolidated financial statements for the years ended November 30, 2013, 2012 and 2011.

Net Financial Income

Finance income for the twelve months ended November 30, 2013 was $541,000 compared to $890,000 in Fiscal 2012. Interest revenue has trended lower due to a gradual decline in the portfolio size as investments were liquidated to fund operations.

Finance costs for the twelve months ended November 30, 2013 were $87,000 compared to a gain of $21,000 in Fiscal 2012, which resulted from favorable foreign exchange fluctuations.

Net Loss

Taking into account the revenue and expense variations described above, we recorded a net loss of $4,055,000 or $0.07 per share in the twelve months ended November 30, 2013 compared to a net loss of $13,940,000 or $0.23 per share in Fiscal 2012.

Fourth Quarter Comparison

Consolidated revenue for the three months ended November 30, 2013 amounted to $1,246,000 compared to $3,899,000 for the comparable period of 2012.

(in thousands of Canadian dollars)	**2013**	**2012**
Sale of goods	$311	$1,375
Upfront and milestone payments	$320	$868
Royalties and license fees	$615	$1,656
Revenue	**$1,246**	**$3,899**

Revenue generated from the sale of goods for the three months ended November 30, 2013 was $311,000 compared to $1,375,000 in the comparable period in Fiscal 2012. The decline reflects lower shipments to EMD Serono linked to the manufacturing problems encountered in Fiscal 2013. Revenue related to the amortization of the initial payment received upon the closing of the EMD Serono Agreement was $320,000 for the three-month period ended November 30, 2013, compared to $868,000 in the comparable period of Fiscal 2012. The amortization amounts are adjusted periodically to allow sufficient time for the development work required under the EMD Serono Agreement that has yet to be completed.

Royalties were $615,000 in the three months ended November 30, 2013, compared to $1,656,000 in the comparable period of Fiscal 2012. The royalties reported for the fourth quarter of Fiscal 2012 included royalties received in the three months ended September 30, 2012 as well as an amount of $699,000 based on management's estimate of the royalties earned on *EGRIFTA*™ sales in October and November 2012. The supply shortage in the fourth quarter of Fiscal 2013 had a negative impact on royalties in that year.

The cost of sales for the three months ended November 30, 2013 was $1,155,000 compared to $1,323,000 in the comparable period of Fiscal 2012. The cost of sales is made up of cost of goods sold and unallocated production costs. The cost of goods sold component for the three months ended November 30, 2013 was $322,000 compared to $1,288,000 in the comparable period of Fiscal 2012, reflecting lower sale of goods in 2013 as described above. Unallocated production costs were $833,000 in the three months ended November 30, 2013 compared to $35,000 in the prior year period, mainly due to inventory write downs and other costs associated with the manufacturing problems experienced during the period.

R&D expenses, net of tax credits, amounted to $1,547,000 in the three months ended November 30, 2013 compared to $1,894,000 in the comparable period of Fiscal 2012. R&D expenses include our share of expenses for the two Phase 4 clinical trials currently being conducted by EMD Serono. We are responsible for all of the costs associated with the diabetic retinopathy study, which amounted to $893,000 in the three months ended November 30, 2013 compared to $404,000 in the comparable period of 2012. Our fifty percent share of the long-term safety study was $133,000 in the fourth quarter of Fiscal 2013 compared to $82,000 in the prior-year period.

Selling and market development expenses amounted to $60,000 for the three months ended November 30, 2013, compared to $116,000 for the comparable period of Fiscal 2012, reflecting cost savings from restructuring initiatives in Fiscal 2012.

General and administrative expenses amounted to $1,201,000 in the three months ended November 30, 2013 compared to $556,000 in the comparable period of Fiscal 2012. The 2013 expenses include costs associated with the EMD Serono Termination Agreement. The expenses in 2012 were lower as a result of the suspension of executive bonuses in that year.

There was a recovery of previously expensed restructuring costs amounting to $18,000 in the three months ended November 30, 2013. The restructuring costs in the comparable period of Fiscal 2012 were $4,526,000, which resulted from restructuring activities at that time.

Net financial income for the three months ended November 30, 2013 was $100,000 compared to $166,000 in the comparable period of Fiscal 2012. The decline was principally due to lower interest revenues related to a gradual decline in the portfolio size as investments were liquidated to fund operations.

Taking into account the revenue and expense variations described above, we recorded a net loss of $2,598,000 or $0.04 per share in the three months ended November 30, 2013 compared to a net loss of $4,341,000 or $0.07 per share in the comparable period of Fiscal 2012.

In the three months ended November 30, 2013, the use of cash in operating activities amounted to $1,404,000 compared to $3,756,000 in the comparable period of Fiscal 2012.

Operating Results - twelve months ended November 30, 2012 compared to twelve months ended November 30, 2011

Revenue

Our revenues are mainly sales of *EGRIFTA*™ to EMD Serono for re-sale, royalties received from EMD Serono on U.S. sales to customers, and research services, which include milestone payments and the amortization of the initial payment received upon the closing of the agreement with EMD Serono. Consolidated revenue for the twelve months ended November 30, 2012 amounted to $13,567,000 compared to $14,928,000 in Fiscal 2011.

(in thousands of Canadian dollars)	**2012**	**2011**
Sale of goods	$5,235	$8,351
Upfront and milestone payments	$4,077	$5,134
Royalties and license fees	$4,255	$1,443
Revenue	**$13,567**	**$14,928**

Revenue generated from sale of goods amounted to $5,235,000 in the twelve-month period ended November 30, 2012 compared to $8,351,000 in Fiscal 2011. *EGRIFTA*™ was first offered for sale to the public in January 2011 and our sales in Fiscal 2011 reflect the buildup of stocks needed by EMD Serono for the product launch in the U.S. market. Revenues from sale of goods in Fiscal 2012 were more closely tied to actual sales to patients.

Revenue also includes the amortization of the initial payment of $27,097,000 received upon the closing of the EMD Serono Agreement. For the twelve-month period ended November 30, 2012, $4,077,000 was recognized as revenue related to the initial payment, compared to $5,134,000 in Fiscal 2011. The amortization amount in Fiscal 2012 reflects an extension made to the service period attributed to the initial payment in order to allow sufficient time for work that has yet to be

completed. At November 30, 2012, the remaining deferred revenue related to this transaction recorded on the consolidated statement of financial position amounted to $4,481,000.

Royalties, which are almost entirely derived from the sales of *EGRIFTA*™, were $4,255,000 in Fiscal 2012 compared to $1,443,000 in Fiscal 2011. Most of the increase is due to growth in *EGRIFTA*™ sales, which were up significantly in Fiscal 2012 compared to Fiscal 2011. In addition, the royalties reported in Fiscal 2012 include an amount of $699,000 based on management's estimate of the royalties earned on *EGRIFTA*™ sales in October 2012 and November 2012, for which the comparable amounts from last year were only recorded in the first quarter of Fiscal 2012.

Cost of Sales

For the twelve months ended November 30, 2012, the cost of sales of *EGRIFTA*™ amounted to $5,056,000 compared to $9,146,000 in Fiscal 2011. The cost of sales is made up of cost of goods sold and unallocated production costs. The cost of goods sold component in 2012 amounted to $4,711,000 compared to $8,040,000 in the prior year, reflecting lower sale of goods in Fiscal 2013 as described above. Unallocated production costs were $345,000 in Fiscal 2013 compared to $1,106,000 in the prior year.

R&D Expenses

R&D expenses, net of tax credits, amounted to $6,341,000 in the twelve months ended November 30, 2012 compared to $10,992,000 in Fiscal 2011. The significant reduction in R&D expenses is largely due to the adoption of a more focused business plan and the related restructuring initiatives. R&D expenses in 2012 include our share of expenses for the two Phase 4 clinical trials currently being conducted by EMD Serono. We are responsible for all of the costs associated with the diabetic retinopathy study, which amounted to $1,502,000 in Fiscal 2012. Our fifty percent share of the long-term safety study was $117,000 in the Fiscal 2012. There were no expenses related to the two Phase 4 trials in Fiscal 2011. Other R&D expenses in 2012 were associated with pursuing the development of TH1173 and a new formulation of *EGRIFTA*™, and helping our commercial partners to pursue regulatory approvals in their respective jurisdictions.

R&D expenses in Fiscal 2011 were related to the Phase 2 clinical trial evaluating tesamorelin in muscle wasting associated with COPD, to the work on a new formulation and a new presentation of *EGRIFTA*™ and to the discovery and development of novel GRF peptides, including TH1173. R&D expenses in Fiscal 2011 also included the cost of filing the NDS in Canada, all regulatory and clinical activities to support our three commercial partners, and follow-up on post-approval commitments made to the FDA.

Selling and Market Development Expenses

Selling and market development expenses amounted to $852,000 for the twelve months ended November 30, 2012, compared to $2,019,000 in Fiscal 2011, reflecting cost savings from restructuring initiatives in Fiscal 2012. With *EGRIFTA*™ licensing agreements now in place in major markets, the ongoing selling and market development expenses are reduced to the costs of managing relationships with our commercial partners and certain selling expenses such as insurance coverage for inventories.

General and Administrative Expenses

General and administrative expenses amounted to $5,462,000 in the twelve months ended November 30, 2012 compared to $10,823,000 in Fiscal 2011. The expenses in 2012 were considerably lower as a result of restructurings, the departure of the former President and Chief Executive Officer and the suspension of executive bonuses. In addition, the relatively high expenses in 2011 included the costs associated with the planned public offering of our common shares, the cost of listing our common shares on NASDAQ, as well as costs related to the change in leadership of the Company in that year.

Restructuring Costs

Restructuring costs amounted to $10,702,000 in the twelve months ended November 30, 2012 compared to $716,000 in Fiscal 2011. Early in Fiscal 2012, we took steps to narrow the focus of our business by concentrating our efforts on *EGRIFTA*™ and on developing TH1173. The related restructuring costs were $6,176,000, which were mainly incurred in the first quarter. We announced further revisions to our business plan and related restructuring activities aimed at accelerating the process of becoming cash neutral in October 2012. The second restructuring resulted in fourth-quarter costs of $4,526,000.

In Fiscal 2011, a restructuring was undertaken in June, following a re-evaluation of our R&D business model. The objective was to rely more on external partners in both the private and public sectors in order to bring our R&D projects forward. As a result, we incurred restructuring costs of $716,000 in the third quarter.

Restructuring costs, which include provisions and write-downs, are described in more detail in note 20 (b) “Other Information -- Restructuring costs” of our audited consolidated financial statements for the years ended November 30, 2012, 2011 and 2010.

Net Financial Income

Finance income for the twelve months ended November 30, 2012 was $890,000 compared to $1,602,000 in Fiscal 2011. Interest revenue has trended lower due to a gradual decline in the portfolio size as investments were liquidated to fund operations.

Finance costs for the twelve months ended November 30, 2012 were actually a gain of $21,000 as a result of favorable foreign exchange fluctuations. The finance costs of $636,000 in Fiscal 2011 included a foreign exchange loss incurred in the first quarter, upon receipt and translation to Canadian dollars of a US$25,000,000 milestone payment from EMD Serono. The milestone payment had originally been recognized as revenue and translated into Canadian dollars at the more favorable exchange rate in effect at the end of Fiscal 2010, resulting in an exchange gain of $511,000 in that period.

Net Loss

Taking into account the revenue and expense variations described above, we recorded a net loss of $13,940,000 or $0.23 per share in the twelve months ended November 30, 2012 compared to a net loss of $17,730,000 or $0.29 per share in Fiscal 2011.

Quarterly Financial Information

The following table is a summary of our unaudited consolidated operating results presented in accordance with IFRS for the last eight quarters.

(In thousands of dollars, except per share amounts)

	2013				2012			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Sale of goods	**$311**	**$786**	**$996**	**$451**	$1,375	$1,725	$856	$1,279
Upfront and milestone payments	**$320**	**$463**	**$463**	**$464**	$868	$1,070	$1,069	$1,070
Royalties and license fees	**$615**	**$928**	**$872**	**$884**	$1,656	$1,027	$731	$841
Revenue	**$1,246**	**$2,177**	**$2,331**	**$1,799**	$3,899	$3,822	$2,656	$3,190
Net (loss) profit	**$(2,598)**	**$(1,935)**	**$(1,382)**	**$1,860**	$(4,341)	$(698)	$(1,417)	$(7,484)
Basic and diluted (loss) profit per share	**$(0.04)**	**$(0.03)**	**$(0.02)**	**$0.03**	$(0.07)	$(0.01)	$(0.02)	$(0.12)

Revenue generated from sale of goods declined in Fiscal 2013, reflecting lower shipments to EMD Serono and a lower selling price. The lower level of shipments was largely due to reductions in EMD Serono's inventory as well as to the supply shortage, which occurred in the fourth quarter as a result of the manufacturing problems encountered earlier in the year. The lower selling price in 2013 was the result of the introduction of the new single-vial presentation of EGRIFTA™ in October 2012. While the EGRIFTA™ selling price is now lower than in previous years, our markup in percentage terms remains unchanged.

The royalties and license fees reported for the fourth quarter of Fiscal 2012 are for the 5-month period from July 1, 2012 to November 30, 2012 as they include royalties actually received in the three months ended September 30, 2012 as well as an amount of $699,000 based on management's estimate of the royalties earned on EGRIFTA™ sales in October and November 2012.

The net losses reported in the first and fourth quarters of Fiscal 2012 include restructuring costs of $6,176,000 and $4,526,000 respectively.

The net profit in the first quarter of 2013 resulted from the elimination of an onerous lease provision in the amount of $3,093,000, which was no longer required following the signing of an amended lease agreement with our landlord.

Liquidity and Capital Resources

Our objective in managing capital is to ensure a sufficient liquidity position to finance our business activities. Prior to Fiscal 2011, we funded our activities by relying primarily on public offerings of common shares in Canada and private placements of our common shares as well as on up-front payments and milestone payments primarily associated with the EMD Serono Agreement. When possible, we optimize our liquidity position using non-dilutive sources, including investment tax credits, grants and interest income. With the market launch of *EGRIFTA*™ in Fiscal 2011, we began to receive additional revenues in the form of product sales and royalties. We believe the Company

has sufficient cash and bonds on hand at November 30, 2013 to carry out our planned activities and meet our liabilities as they come due for the next 12 months.

For the twelve months ended November 30, 2013, the use of cash in operating activities was $7,744,000 compared to $15,634,000 in Fiscal 2012.

The large decrease in the use of cash in Fiscal 2013 reflects the reduction in the net loss from $13,940,000 in Fiscal 2012 to $4,055,000 in Fiscal 2013. Inventory decreased by $676,000 in Fiscal 2013 compared to an increase of $2,864,000 in Fiscal 2012. Following a buildup of inventory in Fiscal 2011 and the first six months of Fiscal 2012 related to the market launch of *EGRIFTA*™, inventory levels stabilized and started to decrease. Accounts payable and accrued liabilities have also stabilized. The cash flows in both 2013 and 2012 were significantly impacted by provisions, which decreased by $5,626,000 in Fiscal 2013 of which $2,498,000 was disbursed in cash. This compares to an increase in the provision of $5,574,000 in Fiscal 2012, which included substantial restructuring provisions for which cash was not disbursed in the period. Largely as a result of the effect of restructuring provisions and the stabilization of inventory levels, changes in operating assets and liabilities used $3,458,000 of cash in Fiscal 2013, compared to $1,427,000 of cash generated in Fiscal 2012.

The Company's share purchase plan, or Plan, was discontinued in March 2012 and consequently no common share subscriptions were received in connection with the Plan in Fiscal 2013 and Fiscal 2012 (7,837 common shares for $34,000 in Fiscal 2011).

No stock options were exercised in Fiscal 2013. In Fiscal 2012, 145,337 stock options were exercised for cash consideration of $243,000 and 344,665 stock options were exercised for cash consideration of $668,000 in Fiscal 2011).

As at November 30, 2013, cash and bonds, and tax credits and grants receivable amounted to $12,353,000 compared to a liquidity position of $20,924,000 ($20,503,000 in cash and bonds, and tax credits and grants receivable of $421,000) at the end of Fiscal 2012. We invest our available cash in highly liquid fixed income instruments from governmental, municipal and paragovernmental bodies ($11,386,000 November 30, 2013).

Apart from our $3,800,000 of unused credit facilities, we do not have any additional arrangements for external debt financings. We may seek additional capital through the incurrence of debt, the issuance of equity or other financing alternatives.

Contractual Obligations

Commitments

The following table lists as at November 30, 2013 information with respect to the Company's known contractual obligations.

(In thousands of Canadian dollars)

Contractual Obligations	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	More than 5 Years
Long Term Debt Obligations	--	--	--	--	--
Capital Lease Obligations	--	--	--	--	--
Operating Lease Obligations	$414	$90	$191	$133	--
Purchase Obligations	--	--	--	--	--
Other Long-Term Liabilities	--	--	-	--	--
Total	**$414**	**$90**	**$191**	**$133**	**--**

Lease Amendment Agreement

Effective April 2, 2013, the Company amended its lease agreement with its landlord, which resulted in an 85% reduction in annual cash outlays for rent and shortens the remaining term of the lease from eight years to five years. The floor space occupied by the Company is reduced from 36,400 sq. ft. to 5,000 sq. ft. Consequently, management reviewed its estimates of the onerous lease provision and a reversal in the amount of $3,133,000 has been recorded in 2013.

Long-Term Procurement Agreements

We have long-term procurement agreements with third-party suppliers in connection with the commercialization of *EGRIFTA™.* As at November 30, 2013, we had outstanding purchase orders and minimum payments required under these agreements amounting to $3,128,000 ($2,724,000 in 2012) for the manufacture of *EGRIFTA™*.

Credit Facilities

We have a $1,800,000 revolving credit facility, bearing interest at prime plus 0.5%. Under the terms of the revolving credit facility, the market value of investments held must always be equivalent to 150% of amounts drawn under the facility. If the market value falls below $7,000,000, we will provide the bank with a first ranking movable hypothec (security interest) of $1,850,000 on securities judged satisfactory by the bank.

We also have a line of net risk for derivative instruments up to a maximum of $2,000,000.

As at November 30, 2013 and 2012, we did not have any borrowings outstanding under these credit facilities.

Post-Approval Commitments

In connection with its approval of *EGRIFTA*™, the FDA has required the following three post-approval commitments:

- to develop a single vial formulation of *EGRIFTA*™ (the development of a new presentation of the same formulation);
- to conduct a long-term observational safety study using *EGRIFTA*™; and
- to conduct a Phase 4 clinical trial using *EGRIFTA*™.

We have developed a new presentation of *EGRIFTA*™ which complies with the first of the FDA's post-approval requirements and it was launched by EMD Serono in October 2012.

The long-term observational safety study is to evaluate the safety of long-term administration of *EGRIFTA*™ and is in the recruitment phase. We have agreed to share the cost of this study equally with EMD Serono and estimate that our share of the cost could amount to an average of $1,300,000 per year, over a fifteen-year period. Expenditures to date amount to $771,000.

The Phase 4 clinical trial is to assess whether *EGRIFTA*™ increases the incidence or progression of diabetic retinopathy in diabetic HIV-infected patients with lipodystrophy and excess abdominal fat. EMD Serono is responsible for executing the trial and is to be reimbursed by us for the direct costs involved. The trial is in the recruitment phase. The FDA-approved protocol for the trial calls for patients to inject themselves daily with either *EGRIFTA*™ or placebo over a three-year treatment period. We estimate that the trial could cost approximately $20,000,000. Expenditures to date amount to $4,507,000.

Contingent Liability

A motion to authorize the institution of a class action was originally filed in July 2010 in the Superior Court of Québec, District of Montreal, entitled 121851 Canada Inc. v. Theratechnologies Inc. et al., Number 500-06-000515-102. The complaint alleged that we, a director and a former executive officer violated the secondary market liability provisions of the Securities Act (Québec) by failing to disclose a material change relating to the administration of *EGRIFTA*™. The plaintiff sought damages on behalf of a class of persons who were shareholders at May 21, 2010 and who sold their common shares on May 25 or 26, 2010. On February 24, 2012, the Superior Court of Québec authorized 121851 Canada Inc. to institute a class action against us, a director and a former executive officer. On March 20, 2012, we filed a motion seeking permission to appeal this judgement with the Court of Appeal of Québec, District of Montreal, Number 500-09-022519-128, and the hearing took place on January 24, 2013. Our motion was dismissed by the Court on July 17, 2013. An application for leave to appeal the decision issued by the Court of Appeal was filed in November 2013 with the Supreme Court of Canada. Such application was approved by the Supreme Court of Canada on February 20, 2014.

In addition, 121851 Canada Inc. filed a new motion in the Superior Court of Québec, district of Montréal, in May 2013, to institute a class action against the Company, a director and a former executive officer. The second motion is based on the same facts and seeks the same conclusion as the first motion except that damages are sought under the Civil Code of Québec instead of the Securities Act (Québec). The parties have agreed to stay this motion until a final decision is issued under the first motion.

We intend to contest these class actions and consider them to be without merit. The Company has subscribed to insurance covering its potential liability and the potential liability of its directors and officers in the performance of all their duties for the Company.

Off-Balance Sheet Arrangements

We were not involved in any off-balance sheet arrangements for the year ended November 30, 2013, with the exception of the lease of our headquarters as described above.

Subsequent Events

EGRIFTA™ Manufacturing

On February 14, 2014, we announced that we expected our inventory of *EGRIFTA*™ to be depleted in a matter of weeks due to a combination of manufacturing delays and issues observed during the production of new batches of *EGRIFTA*™. We further advised that the ensuing depletion of the inventory would result in a shortage of *EGRIFTA*™ and an eventual stock-out and that we were temporarily ceasing to manufacture *EGRIFTA*™. As of the date of this MD&A, we have not resumed the manufacture of *EGRIFTA*™ and are unable to determine a timeline to resume its manufacture and delivery. Resolving the *EGRIFTA*™ manufacturing problems and ensuring that we have a reliable source of supply are immediate priorities for the Company in 2014.

Commercialization Rights for *EGRIFTA*™ in the United States

On December 13, 2013, we announced that we had reached an agreement with EMD Serono to regain all rights under the collaboration and licensing agreement with EMD Serono, or EMD Serono Agreement, including the commercialization rights for *EGRIFTA*™ in the United States.

Under the terms of the termination and transfer agreement entered into with EMD Serono, or EMD Serono Termination Agreement, we agreed to pay an early termination fee of USD $20,000,000, or Early Termination Fee, evenly over a five-year period starting on the first anniversary of the closing date. We also agreed to pay EMD Serono an increasing royalty, or Royalties, based on annual net sales. The Royalties will be paid until a cumulative aggregate amount is reached or until January 1, 2024, the first of these events to occur.

In order to secure the payment of the Early Termination Fee, we agreed to grant EMD Serono a security interest on its present and future corporeal and incorporeal movable property related to *EGRIFTA*™ until such time as the amount of USD $20,000,000 has been reimbursed in full to EMD Serono. Thereafter, we and EMD Serono agreed to reduce the security interest to all present and future corporeal and incorporeal movable property related to *EGRIFTA*™ in the United States only to secure the payment of the Royalties.

The EMD Serono Termination Agreement provides that from and after the closing date, we will be responsible for the conduct of all regulatory and commercialization activities in the United States, including the conduct, and all of the costs, of the long-term observational safety study and the Phase 4 clinical trial mandated by the FDA. Also, as a consequence of the EMD Serono Termination Agreement, we will no longer be obligated to develop a new formulation of *EGRIFTA*™ and the related, remaining balance in our deferred revenue account will be included in revenue on the closing date.

In addition, the EMD Serono Termination Agreement provides that in the event there occurs a change of control of the Company within eighteen (18) months after the closing date, EMD Serono has the option to accelerate the full payment of the Early Termination Fee and to seek the payment of an amount intended to equal the net present value of the maximum future Royalties. If such change of control occurs after eighteen (18) months after the closing date, EMD Serono has the option to accelerate the payment of all unpaid Early Termination Fee.

We also retained the services of inVentiv Health to establish and manage our operations in the United States. The services provided by inVentiv Health will include sales force, marketing support,

patient communications, regulatory compliance, reimbursement and market access. All decisions regarding the commercialization of *EGRIFTA*™ will be made from our head office.

The closing of the transaction is expected to occur on May 1, 2014. Until the closing date, the EMD Serono Agreement will continue to apply.

Stock Option Plan

Between December 1, 2013 and February 24, 2014, 122,668 options were forfeited and expired at a weighted exercise average price of $3.12 per share. On December 13, 2013, the Company granted 125,000 options at an exercise price of $0.50 per share.

Deferred Stock Unit Plan

In December 2013, the two cash settled forward stock contracts (note 16 (ii) of the consolidated financial statements) were amended to expire in December 2014.

Financial Risk Management

This section provides disclosure relating to the nature and extent of our exposure to risks arising from financial instruments, including credit risk, liquidity risk, currency risk and interest rate risk, and how we manage those risks.

Credit Risk

Credit risk is the risk of a loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. We regularly monitor credit risk exposure and take steps to mitigate the likelihood of this exposure resulting in losses. Our exposure to credit risk currently relates to accounts receivable from only one customer (see note 5 of the audited consolidated financial statements) and derivative financial assets which it manages by dealing with highly-rated Canadian financial institutions.

Included in the consolidated statement of financial position are trade receivables of $445,000 (2012 - $1,045,000), all of which were aged under 60 days. There was no bad debt expense for the year ended November 30, 2013 (November 30, 2012 – nil, November 30, 2011 -- nil). Financial instruments other than cash and trade and other receivables that potentially subject the Company to significant credit risk consist principally of bonds. We invest our available cash in highly liquid fixed income instruments from governmental, paragovernmental and municipal bodies ($11,386,000 as at November 30, 2013; $18,991,000 as at November 30, 2012). As at November 30, 2013, we believe we were not exposed to any significant credit risk for the carrying amount of the bonds.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. We manage liquidity risk through the management of our capital structure, as outlined under “Liquidity and Capital Resources”. We also manage liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors and/or the Audit Committee reviews and approves our operating and capital budgets, as well as any material transactions out of the ordinary course of business.

We have adopted an investment policy in respect of the safety and preservation of capital designed to ensure that our liquidity needs are met. The instruments are selected with regard to the expected timing of expenditures and prevailing interest rates.

The required payments on the contractual maturities of financial liabilities, as well as the payments required under the terms of the operating lease, as at November 30, 2013, are presented in notes 18, 21 and 24 of the audited consolidated financial statements.

Currency Risk

We are exposed to financial risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates. Currency risk is limited to the portion of our business transactions denominated in currencies other than the Canadian dollar, primarily revenues from milestone payments, sale of goods, royalties and expenses incurred in U.S. dollars, euros and pounds sterling, or GBP.

We manage currency risk by maintaining cash in U.S. dollars on hand to support forecasted U.S. dollar outflows over a 12-month horizon and from time to time by entering into forward foreign exchange contracts. We do not currently view our exposure to the euro and GBP as a significant foreign exchange risk due to the limited volume of transactions conducted by the Company in these currencies.

No foreign exchange contracts were outstanding on November 30, 2013. In November 2012, we entered into two forward foreign exchange contracts to sell, in aggregate, US$390,000 for C$387,000 in December 2012 and January 2013. The fair value of these instruments at November 30, 2012 was nil.

Exchange rate fluctuations for foreign currency transactions can cause cash flows as well as amounts recorded in consolidated statement of comprehensive income to vary from period to period and not necessarily correspond to those forecasted in operating budgets and projections. Additional earnings variability arises from the translation of monetary assets and liabilities denominated in currencies other than the Canadian dollar at the rates of exchange at each consolidated statement of financial position date, the impact of which is reported as foreign exchange gain or loss in the consolidated statement of comprehensive (loss) income. Given our policy on the management of our U.S. foreign currency risk, we do not believe a sudden change in foreign exchange rates would impair or enhance our ability to pay our U.S. dollar denominated obligations.

The following table presents the significant items in the original currencies exposed to currency risk at the following dates:

(In thousands)

			November 30, 2013
	$US	**EURO**	**GBP**
Cash	858	-	-
Trade and other receivables	408	-	-
Accounts payable and accrued liabilities	(1,356)	(14)	(2)
Total exposure	(90)	(14)	(2)

The following exchange rates applied during the year ended November 30, 2013:

		November 30, 2013
	Average rate	**Reporting date rate**
$ US - C$	1.0239	1.0620
EURO - C$	1.3557	1.4427
GBP - C$	1.6000	1.7383

Based on the Company's foreign currency exposures noted above, varying the above foreign exchange rates to reflect a 5% strengthening of the Canadian dollar would have a positive or (negative) impact on the net profit or (loss) as follows, assuming that all other variables remained constant:

(In thousands)

			November 30, 2013
	$US	**EURO**	**GBP**
Positive or (negative) impact	5	1	-

An assumed 5% weakening of the Canadian dollar would have had an equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Our short-term bonds are invested at fixed interest rates and/or mature in the short-term. Long-term bonds are also instruments that bear interest at fixed rates. The risk that we will realize a loss as a result of a decline in the fair value of our bonds is limited because these investments, although they are classified as available for sale, are generally held until close to maturity. The unrealized gains or losses on bonds are recorded in accumulated other comprehensive income.

Based on the value of our short and long-term bonds at November 30, 2013, an assumed 0.5% decrease in market interest rates would have increased the fair value of these bonds and the accumulated other comprehensive income by approximately $125,000 ($258,000 in 2012); an assumed increase in interest rate of 0.5% would have an equal but opposite effect, assuming that all other variables remained constant.

Cash bears interest at a variable rate. Trade and other receivables, accounts payable and accrued liabilities and provisions bear no interest.

Based on the average value of variable interest-bearing cash during the year ended November 30, 2013 which was $540,000 ($1,043,000 in 2012), an assumed 0.5% increase in interest rates during such period would have increased the future cash flows and decreased the net loss by approximately $3,000 ($5,000 in 2012); an assumed decrease of 0.5% would have had an equal but opposite effect.

Fair Values of Financial Instruments

We have determined that the carrying values of our short-term financial assets and liabilities, including cash, trade and other receivables as well as accounts payable and accrued liabilities, approximate their fair value because of the relatively short period to maturity of the instruments.

Bonds, derivative financial assets and liabilities, and liability related to the DSU Plan are stated at estimated fair value, determined by inputs that are primarily based on broker quotes at the reporting date and the quoted market value of the shares of the Company for the liability related to the DSU (see note 23 of the audited consolidated financial statements – Determination of fair values).

Critical Accounting Estimates

Use of Estimates and Judgment

The preparation of our audited consolidated financial statements in conformity with IFRS 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.

Information about critical judgments in applying accounting policies and assumption and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements is as follows:

- Revenue and deferred revenue:

  Revenue recognition is subject to critical judgements, particularly in collaboration agreements that include multiple deliverables, as judgment is required in allocating revenue to each component, including upfront payments, milestone payments, research services, royalties and license fees and sale of goods.

  Management uses judgment in estimating the amount of royalties earned. The amount earned is calculated as a percentage of net sales of its products realized by the Company's licensees. Net sales are provided by licensees or estimated by management using estimates of revenues from product sales of the licensees less estimates for discounts, rebates, chargebacks and allowances.

- Contingent liability:

  Management uses judgment in assessing the possibility of any outflow in settlement of contingent liabilities.

- Onerous contracts:

  There is estimation uncertainty with respect to selecting inputs to the discounted cash flows used to determine the amount of the onerous contracts.

Other areas of judgment and uncertainty relate to the estimation of accruals for clinical trial expenses, the recoverability of inventories, the measurement of the amount and assessment of the recoverability of tax credits and grants receivable and capitalization of development expenditures.

Reported amounts and note disclosure reflect the overall economic conditions that are most likely to occur and the anticipated measures management intends to take. Actual results could differ from those estimates.

The above estimates and assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Recent changes in accounting standards

New or revised standards and interpretations issued but not yet adopted

The following new or revised standards and interpretations have been issued but are not yet effective for the Company:

a) IFRS 9, Financial Instruments

In November 2009, the IASB issued IFRS 9, *Financial Instruments* (IFRS 9 (2009)), and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)).

In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 *Financial Instruments* (2013). The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized.

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

IFRS 9 (2010) introduces additional changes relating to financial liabilities.

IFRS 9 (2013) includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The mandatory effective date is not yet determined, however, early adoption of the new standard is still permitted. Canadian reporting entities cannot early adopt IFRS 9 (2013) until it has been approved by the Canadian Accounting Standards Board. The extent of the impact of IFRS 9 has not yet been determined.

b) IFRS 10, Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 10 replaces the guidance in IAS 27, Consolidated and Separate Financial Statements, and SIC 12, Consolidation – Special Purpose Entities (SPE). IAS 27 (2008)

survives as IAS 27 (2011), Separate Financial Statements, only to carry forward the existing accounting requirements for separate financial statements.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The amendments issued in June 2012 simplify the process of adopting IFRS 10 and provide additional relief from certain disclosures.

The Company intends to adopt IFRS 10, including the amendments issued in June 2012, in its consolidated financial statements for the annual period beginning on December 1, 2013. The Company does not expect the amendment to have a material impact on the consolidated financial statements.

c) IFRS 13, Fair Value Measurement

In May 2011, the IASB published IFRS 13, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income (OCI).

IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Company intends to adopt IFRS 13 prospectively in its consolidated financial statements for the annual period beginning on December 1, 2013. The Company does not expect the amendment to have a material impact on the consolidated financial statements.

d) Amendments to IAS 19, Employee Benefits

In June 2011, the IASB published an amended version of IAS 19. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted.

The amendments impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and when the entity can no longer withdraw the offer of the termination benefits.

The Company intends to adopt the amendments in its consolidated financial statements for the annual period beginning on December 1, 2013. The Company does not expect the amendment to have a material impact on the consolidated financial statements. IFRIC 21, Levies

In May 2013, the IASB issued IFRIC 21, *Levies*.

This IFRIC is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively.

The IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements.

The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs.

The Company intends to adopt IFRIC 21 in its consolidated financial statements for the annual period beginning December 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

e) Annual Improvements to IFRS (2010-2012) and (2011-2013) cycles

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS.

Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRS would also apply.

Amendments were made to clarify the following in their respective standards:

- Definition of “vesting condition” in IFRS 2, *Share-based payment*;
- Measurement of short-term receivables and payables, and scope of portfolio exception in IFRS 13, *Fair Value Measurement*;
- Definition of “related party” in IAS 24, *Related Party Disclosures.*

Special transitional requirements have been set for amendments to IFRS 2.

The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on December 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

Standard adopted

Amendments to IAS 1, Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively.

The amendments require that an entity presents separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these categories.

The existing option to present the profit or loss and OCI in two statements has remained unchanged.

The Company adopted IAS 1 on December 1, 2012, which had no impact on the consolidated financial statements.

Outstanding Share Data

On February 24, 2014, the number of common shares issued and outstanding was 61,010,603 while outstanding options granted under our stock option plan were 1,878,169.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under Canadian and American laws is recorded, processed, summarized and reported within the time periods specified under Canadian and SEC’s rules and forms, and that such information is accumulated and communicated to our President and Chief Executive Officer and Vice President, Finance, to allow timely decisions regarding required disclosure. Our management, including our President and Chief Executive Officer and Vice President, Finance, conducted an evaluation of our disclosure controls and procedures, as defined under National Instrument 52-109 – Certification of Disclosure in Issuer’s Annual and Interim Filings and under Exchange Act Rule 13a-15(e), as of the end of the period covered by this MD&A. Based upon that evaluation, our President and Chief Executive Officer and Vice President, Finance, have

concluded that, as of November 30, 2013, our disclosure controls and procedures, as defined under National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings and under Exchange Act Rule 13a-15(e), were effective to ensure that information we are required to disclose in reports that we file or submit under Canadian and American laws is communicated to management, including our President and Chief Executive Officer and Vice President, Finance, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized, and reported within the time periods specified under Canadian and SEC's rules and forms.

Management's Annual Report on Internal Control over Financial Reporting

Our management, including our President and Chief Executive Officer and Vice President, Finance, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings and under Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS, as issued by the IASB. Internal controls over financial reporting include those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, as issued by the IASB, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements on a timely basis. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to consolidated financial statements preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal controls over financial reporting as of the end of the period covered by this Annual Report based on the criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of our internal controls over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on that assessment, our management concluded that as of November 30, 2013, our internal controls over financial reporting were effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal controls over financial reporting that occurred during the period covered by this MD&A that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Risks and Uncertainties

Before you invest in our common shares, you should understand the high degree of risk involved. You should consider carefully the following risks and uncertainties described below before you decide to purchase our common shares. The following risks may adversely impact our business, financial condition, operating results and prospects. Additional risks and uncertainties, including those that we do not know about or that we currently believe are immaterial, may also adversely affect our business, financial condition, operating results or prospects. As a result, the trading price of our common shares could decline and you could lose all or part of your investment.

RISKS RELATED TO OUR SUPPLY CHAIN

We have temporarily ceased the manufacture of EGRIFTA™ and there is a stock-out of this product on the market. We have not determined a timeline to resume the manufacture of EGRIFTA™ and are not in a position to provide any at this time. The failure to resume the manufacture of EGRIFTA™ will have a material adverse effect on our revenue, business and future business prospects.

In February 2014, we announced that we expected our inventory of *EGRIFTA*™ to be depleted in a matter of weeks due to a combination of manufacturing delays and issues observed during the production of new batches of *EGRIFTA*™. We further advised that the ensuing depletion of the inventory would result in a shortage of *EGRIFTA*™ and an eventual stock-out and that we were temporarily ceasing to manufacture *EGRIFTA*™. As of the date of this MD&A, we have not resumed the manufacture of *EGRIFTA*™ and are unable to determine a timeline to resume its manufacture and delivery.

If we are unable to resume the manufacture of *EGRIFTA*™ and ensure continuous supply of *EGRIFTA*™, we will not generate revenues, while continuing to incur expenses for our operations, and our liquidities will be materially adversely affected as well as our operating results. After the Closing Date of the EGRIFTA Transaction, to the extent that we are unable to generate revenue and control our operating expenses, we may be in default of our payment obligations to third parties and unless we can generate revenues or find alternative sources of financings, we could have to reorganize or discontinue our operations or we could resort to insolvency laws.

In order to ensure continuous supply of *EGRIFTA*™, we may have to develop and implement substantial changes to our manufacturing process. Developing and implementing substantial changes would require time and would also likely require the approval of the United States Food and Drug Administration, or FDA. If we are required to develop and implement substantial changes to our manufacturing process before resuming the manufacture of *EGRIFTA*™, the combination of time and level of liquidities that may be required will have a material adverse effect on our business and future business prospects. In addition, even if we develop and implement changes to our manufacturing process of *EGRIFTA*™ and we resume the manufacture and delivery of *EGRIFTA*™, there can be no assurance that a drug-shortage will not occur in the future based on our revised manufacturing process.

We rely on third parties for the manufacture and supply of EGRIFTA™ and tesamorelin and such reliance may adversely affect us if the third parties are unable or unwilling to fulfill their obligations.

We do not own or operate manufacturing facilities for the production of *EGRIFTA*™, tesamorelin or any of our other product candidates, nor do we have plans to develop our own manufacturing operations in the foreseeable future. We currently rely on third parties to manufacture and supply all of our required raw materials, drug substance and drug product for our preclinical research, clinical trials and commercial sales. For the manufacture of tesamorelin and *EGRIFTA*™ for commercial sales, we are currently using, and relying on, single suppliers and single manufacturers for raw materials and the final drug substance, namely Bachem Americas, Inc., or Bachem, and Jubilant HollisterStier General Partnership, or Jubilant. Although potential alternative suppliers and manufacturers have been identified, we have not entered into any agreements with them and qualified these vendors to date and no assurance can be given that such suppliers will be qualified in the future or receive necessary regulatory approvals. The replacement of a third-party manufacturer is time-consuming and costly since we will need to validate its capabilities. The validation process includes an assessment of the capacity of such third-party manufacturer to produce the quantities that we may request from time to time, the manufacturing process and its compliance with current good manufacturing practice, or GMP, regulations. In addition, the third-party manufacturer would have to familiarize itself with our technology. Validation of an additional

third-party manufacturer takes at least twenty-four (24) months and could be as long as thirty-six (36) months or more.

Our reliance on third-party manufacturers exposes us to a number of risks. We may be subject to delays in or suspension of the manufacturing of *EGRIFTA*™ and tesamorelin if a third-party manufacturer:

- becomes unavailable to us for any reason, including as a result of the failure to comply with GMP regulations;
- experiences manufacturing problems or other operational failures, such as labour disputes, equipment failures or unplanned facility shutdowns required to comply with GMP, or damage from any event, including fire, flood, earthquake, business restructuring, labour disputes or insolvency; or
- fails to perform its contractual obligations under our agreement, such as failing to deliver the quantities requested on a timely basis or not meeting product specifications.

For instance, on February 25, 2013, we were informed by Jubilant that it received a warning letter from the FDA, or Warning Letter, for its failure to comply with GMP regulations. The Warning Letter was issued after an inspection made by the FDA in early 2012 and after review by the FDA of Jubilant's response letters proposing corrective measures for observations made during FDA's inspection. Jubilant has addressed all comments contained in the Warning Letter and, on February 25, 2014, we were informed by Jubilant that the FDA had accepted all responses filed by Jubilant with the FDA resulting in the closing of the Warning Letter file. If the FDA had not been satisfied with all of Jubilant's responses, we could have been unable to resume the manufacture of *EGRIFTA*™, and to the extent the manufacture of *EGRIFTA*™ had resumed, there could have been a delay in or suspension of the supply of *EGRIFTA*™ until Jubilant complied with GMP regulations. There can be no assurance that Bachem, Jubilant or other third-party manufacturers that we contract with will not be subject to Warning Letters and, if they were subject to such letters, that they would be able to respond to all of the FDA's concerns and continue their manufacturing activities.

Any delays in or suspensions of the supply of *EGRIFTA*™ would delay or prevent the sale of *EGRIFTA*™ and, accordingly, materially adversely affect our business, financial condition and operating results. In addition, any manufacturing delay or delay in delivering *EGRIFTA*™ caused by quality control problems could result in product defects, recall or inventory write-offs.

RISKS RELATED TO THE COMMERCIALIZATION OF *EGRIFTA*™

Our commercial success and revenue growth depend solely on the commercialization of EGRIFTA™ in the United States; unsatisfactory future sales levels in the United States will have a material adverse effect on us.

Our ability to generate revenue is currently solely based on the commercialization of *EGRIFTA*™ in the United States. Our revenues are mainly derived from sales of *EGRIFTA*™ to EMD Serono for re-sale, royalties received from EMD Serono on U.S. sales of *EGRIFTA*™ to customers, milestone payments from the EMD Serono Agreement, and the amortization of the initial payment received upon the closing of the EMD Serono Agreement.

On and after the Closing Date of the EGRIFTA Transaction, we will be solely responsible for the commercialization of *EGRIFTA*™ in the United States. Our success in commercializing *EGRIFTA*™ will depend on our capacity:

- to recruit, through our U.S. agent, Ventiv Commercial Services, LLC, or inVentiv Health, qualified and talented sales representatives, medical science liaison

personnel and other key individuals to help us commercialize *EGRIFTA*™ in the United States;

- to implement and deploy a marketing campaign that will be accepted by patients, physicians and third-party payors;
- to establish a distribution network for *EGRIFTA*™ by entering into agreements with wholesalers and/or specialty pharmacies on reasonable commercial terms that builds on the distribution network currently in place;
- to obtain reimbursement coverage for *EGRIFTA*™ by third-party payors;
- to register the Corporation as a drug supplier to U.S. governmental agencies, including U.S. hospitals;
- to register *EGRIFTA*™ on U.S. governmental forms as a drug available for purchase in the United States;
- to mitigate the negative impact of the *EGRIFTA*™ shortage on patients and healthcare professionals; and
- to ensure that adequate supplies of *EGRIFTA*™ are available.

There can be no assurance that sales of *EGRIFTA*™ to customers in the United States will increase or remain the same in the future. If sales of *EGRIFTA*™ to customers decrease, our revenue could be materially adversely affected which, in turn, would materially adversely affect our business, financial condition and operating results.

Because we expect to be substantially dependent on revenues from *EGRIFTA*™ for the foreseeable future, any negative developments relating to this product, such as safety or efficacy issues, our inability to resume the manufacture of *EGRIFTA*™, the introduction or greater acceptance of competing products or adverse regulatory or legislative developments or our inability to implement any of the abovementioned factors, could have a material adverse effect on our business, financial condition and operating results.

Significant safety or drug interaction problems may arise with respect to EGRIFTA™ which could result in restrictions in EGRIFTA™'s label, product recall or withdrawal of EGRIFTA™ from the market and could materially adversely impact our business and its future business prospects.

New safety or drug interaction issues may arise as *EGRIFTA*™ is used over longer periods of time by a wider group of patients, some of whom may be taking numerous other medicines, or may suffer from additional underlying health problems. Such safety or drug interaction issues could include an increase in the severity or frequency of known problems or the discovery of previously unknown problems, and may result in a variety of adverse regulatory actions. Under U.S. laws, the FDA has broad authority over drug manufacturers to compel any number of actions if safety or drug interaction problems arise, including, but not limited to: (i) requiring manufacturers to conduct post-approval clinical studies to assess known risks or signals of serious risks, or to identify unexpected serious risks; (ii) mandating labeling changes to a product based on new safety information; or (iii) requiring manufacturers to implement a risk evaluation mitigation strategy where necessary to assure safe use of the drug. Similar laws and regulations exist in countries outside of the United States. Previously unknown safety or drug interaction problems could also result in product recalls, restrictions on the product's permissible uses, or withdrawal of the product from the United States market and/or a rejection of the pending marketing authorization applications in other countries.

In addition, as we may conduct and complete other clinical trials with tesamorelin, new safety issues may be identified which could negatively impact our ability to successfully complete these

studies, regardless of the underlying cause. New safety or drug interaction issues may require us to, among other things, provide additional warnings and/or restrictions on *EGRIFTA*™'s label, including a boxed warning in the United States or similar warnings outside of the United States, directly alert healthcare providers of new safety information, narrow the current approved indication for *EGRIFTA*™, alter or terminate future planned trials for additional uses of tesamorelin, any of which could have a material adverse effect on potential sales of *EGRIFTA*™.

We face competition and the development of new products by other companies could materially adversely affect our business and products.

The biopharmaceutical and pharmaceutical industries are highly competitive and we must compete with pharmaceutical companies, biotechnology companies, academic and research institutions as well as governmental agencies for the development and commercialization of products, most of which have substantially greater financial, technical and personnel resources than us. Although we believe that we have currently no direct competitors with an approved product indicated for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy, new competitive products could come on the market and we could face indirect competition from other companies developing and/or commercializing metabolic products and/or other products that reduce or eliminate the occurrence of excess abdominal fat.

We have limited internal sales, marketing or distribution capabilities so we must rely on third parties for the sale and marketing of EGRIFTA™ or any future products.

We have limited internal sales, marketing or distribution capabilities and we currently rely on our commercial partners to market and sell *EGRIFTA*™ in their respective territories pursuant to the license agreements entered into with such partners. In order to continue the commercialization of *EGRIFTA*™ in the United States from the Closing Date of the EGRIFTA Transaction, we have entered into a master service agreement with inVentiv Health pursuant to which specific service-related agreements will be entered into. Under such agreements, inVentiv Health will provide the Corporation with various services, including sales representatives, medical science liaison personnel, patient and physician communication advice, regulatory advice and assistance in obtaining coverage for *EGRIFTA*™ under US Medicaid and Medicare programs and under third-party payor programs. There can be no assurance that inVentiv Health will be able to attract qualified and talented personnel in connection with the marketing, promotion and sale of *EGRIFTA*™ or that we will be able to list *EGRIFTA*™ as a drug eligible for reimbursement by third-party payors and under U.S. governmental programs. Consequently, revenues derived from the sale of *EGRIFTA*™ may be materially adversely affected. Furthermore, our agreements with inVentiv Health and our other commercial partners contain termination provisions which, if exercised, could delay or suspend the commercialization of *EGRIFTA*™ or any future products based on tesamorelin.

Our levels of revenues are highly dependent on obtaining patient reimbursement for EGRIFTA™.

Market acceptance and sales of *EGRIFTA*™ will substantially depend on the availability of reimbursement from third-party payors such as governmental authorities, including U.S. Medicare and Medicaid, managed care providers, and private insurance plans and may be affected by healthcare reform measures in the United States and elsewhere. Third-party payors decide which medications they will pay for and establish reimbursement levels. A primary trend in the U.S. healthcare industry and elsewhere is cost containment. Government authorities and these third-party payors are attempting to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third-party payors have been challenging the prices charged for products. Third-party payors may decrease the level of reimbursement of a product or cease such reimbursement and the occurrence of any of these events could materially adversely affect the sales of *EGRIFTA*™.

On and after the Closing Date of the EGRIFTA Transaction, we will need to apply to obtain coverage of *EGRIFTA*™ under U.S. Medicare and Medicaid programs, as well as under other U.S. programs. Coverage could be denied or the time period allowed to apply for coverage under any of these programs may be expired. If the deadline by which applications must be filed is not met, we may have to wait up to eighteen (18) months prior to being able to file applications to obtain coverage of *EGRIFTA*™ under certain of these programs. Sales of *EGRIFTA*™ to patients benefitting from U.S. funded reimbursement programs currently account for approximately 35% to 40% of all sales of *EGRIFTA*™. Denial of coverage for *EGRIFTA*™ under any of the current programs, or delays in obtaining coverage for *EGRIFTA*™ under any of these programs, would materially adversely affect our revenues. Moreover, within the first eighteen (18) months after the Closing Date of the EGRIFTA Transaction, we will need to find a partner with an active coverage gap agreement in order for *EGRIFTA*™ to be covered by Medicare Part D. There can be no assurance that we will be able to find such a partner and this could have a material adverse effect on our revenue and operating results if we are unable to sell *EGRIFTA*™ to patients who benefit from coverage under Medicare Part D.

In addition, we cannot be sure that reimbursement by insurers, government or others will be available for *EGRIFTA*™ in other territories and, if reimbursement is available, the level of reimbursement provided to patients. Under our agreements with our commercial partners, they are responsible for seeking reimbursement of *EGRIFTA*™ in their respective territories and, as a result, we have no control over whether, or what level of, reimbursement is achieved. If reimbursement is not available or is available only in a limited manner, our commercial partners may not be able to successfully commercialize *EGRIFTA*™ and this would have a material adverse effect on our revenues and future prospects.

Even though EGRIFTA™ is approved for sale in the United States, revenue that we generate from its sales may be limited.

Sales of *EGRIFTA*™ or any future products for which we obtain marketing approval from the FDA or other regulatory authorities will depend upon the acceptance of such product by the medical community, including physicians, patients and health care payors. The degree of market acceptance of any of our products will depend on a number of factors, including:

- demonstrated product safety, including the prevalence and severity of side effects, and effectiveness as a treatment that addresses a significant unmet medical need;
- storage requirements, dosing regimen and ease of administration;
- the availability of competitive alternatives;
- our ability to obtain and maintain sufficient third-party coverage for reimbursement from government health care programs, including U.S. Medicare and Medicaid, private health insurers and other third-party payors;
- the willingness and ability of patients to pay out-of-pocket for medications in the absence of third-party coverage;
- the product price; and
- the effectiveness of sales and marketing efforts.

If *EGRIFTA*™ does not achieve adequate sales, we may not generate sufficient revenue from this product to become profitable. Moreover, if we do not generate sufficient revenue from the sale of *EGRIFTA*™, we may default on our payment obligations under the EMD Serono Termination Agreement and EMD Serono could exercise its rights under its security interest over all of our tesamorelin-related assets.

Our ability to grow our revenues from sales of EGRIFTA™ in countries outside of the United

States will be limited if our commercial partners do not obtain approval, or experience significant delays in their efforts to obtain approval, to market EGRIFTA™.

In order for *EGRIFTA*™ to be commercialized outside of the United States, it is necessary to obtain regulatory approval from the appropriate regulatory authorities. The regulatory authority of each country has its own rules and regulations and the requirements and timing for regulatory approval vary widely from country to country and may, in some cases, be different than or more rigorous than requirements in the United States. The marketing authorization applications filed by our commercial partners seeking approval of *EGRIFTA*™ are supported by data from clinical trials we conducted to support our new drug application, or NDA, with the FDA. There is no assurance that these marketing authorization applications supported by the data used to obtain approval of *EGRIFTA*™ in the United States will meet the requirements of various regulatory agencies outside of the United States to approve *EGRIFTA*™.

Our commercial partner in Africa, Latin America and the Middle East, sanofi, has filed marketing authorization applications for *EGRIFTA*™ in Argentina, Brazil, Colombia, Israel, Mexico and Venezuela. In each of Brazil and Mexico, the two most important markets in Latin America, marketing authorization applications have been filed for more than two (2) years. In Colombia, the regulatory authority rejected the application for *EGRIFTA*™. In Argentina, the filed documents need to be amended and a new marketing authorization application needs be filed. In Israel and Venezuela, additional documents need to be filed in order to pursue the regulatory review of the applications. There is no assurance that *EGRIFTA*™ will be approved in any of these countries, even if we file a new marketing authorization in Argentina or file the missing documents in Israel and Venezuela. If we do not obtain approval of *EGRIFTA*™ in Brazil and Mexico, our potential revenue growth could be adversely affected. Revenue growth may also be affected in the event sanofi decides not to file a marketing authorization application in countries where they believe that it will not be commercially viable to sell *EGRIFTA*™.

In Canada, the non-approval of the new drug submission, or NDS, filed in June 2011 with Health Canada's Therapeutic Products Directorate, or TPD, for *EGRIFTA*™ would have adverse consequences on the potential approval of *EGRIFTA*™ in certain other countries of the world, including Bahrain, Kuwait, Oman, Qatar, Russia, Moldova, Ukraine, Republic of Belarus, Turkmenistan and Tajikistan. In those countries, regulatory agencies require that a certificate of pharmaceutical product, or CPP, from the country of origin of a product for which authorization is sought be filed with the application. If TPD does not approve our NDS for tesamorelin, no Canadian CPP will be issued and we or a commercial partner will be unable to file a marketing authorization application in countries requiring a Canadian CPP. In such instances, our capacity to grow our revenues could be adversely affected.

In Europe, we have consulted with key physicians, patient groups, and regulatory experts and subsequently met with regulators in certain jurisdictions to evaluate our prospects for acceptance should we decide to re-file for approval. The result of these consultations and meetings led us to believe that we do not have a reasonable likelihood of being approved in Europe without including additional clinical data on *EGRIFTA*™. Therefore, we have decided to seek commercial partners who can help us to pursue other options in the short term. Alternatives include filing only in certain countries and dispensing *EGRIFTA*™ by way of named patient programs. There is no assurance that we will be able to successfully pursue these alternatives and if we are unable to do so it could have an adverse effect on our revenue growth, operating results and business prospects.

In addition, even if *EGRIFTA*™ is approved in all or some of the countries where marketing authorization applications are filed, or are intended to be filed, there is no assurance that *EGRIFTA*™ will be successfully commercialized in any of those countries.

The overall commercialization success of *EGRIFTA*™ outside the United States will depend on several factors, including:

- receipt of regulatory approvals for *EGRIFTA*™ from regulatory agencies in the territories in which we wish to expand the commercialization of *EGRIFTA*™;
- market acceptance of *EGRIFTA*™ by the medical community, patients and third-party payors (such as governmental health administration authorities and private health coverage insurers);
- the amount of resources devoted by our commercial partners, and their local agents in certain countries, to commercialize *EGRIFTA*™ in their respective territories;
- maintaining manufacturing and supply agreements to ensure the availability of commercial quantities of *EGRIFTA*™ through validated processes;
- the number of competitors in these other markets; and
- protecting and enforcing our intellectual property and avoiding patent infringement claims.

The non-approval or lack of commercial success of *EGRIFTA*™ in major markets outside the United States would decrease our capacity to grow revenues and would affect our operating results.

We are dependent on collaboration and licensing agreements for the commercialization of EGRIFTA™ in Latin America, Africa, the Middle East and Canada. These agreements place the commercialization of EGRIFTA™ in these markets outside of our control.

Although our collaboration and licensing agreements with sanofi and Actelion Pharmaceuticals Canada Inc., or Actelion, contain provisions governing their respective responsibilities as partners for the commercialization of *EGRIFTA*™ in their respective territories, our dependence on these partners to commercialize *EGRIFTA*™ is subject to a number of risks, including:

- our limited control of the amount and timing of resources that our commercial partners, and their local agents in certain countries, will be devoting to the commercialization, marketing and distribution of *EGRIFTA*™, including obtaining third-party patient reimbursement coverage, which could adversely affect our ability to obtain or maximize revenues;
- disputes or litigation that may arise between us and our commercial partners, which could adversely affect the commercialization of *EGRIFTA*™, all of which would divert our management's attention and our resources;
- our commercial partners not properly defending our intellectual property rights or using them in such a way as to expose us to potential litigation, which could, in both cases, adversely affect the value of our intellectual property rights;
- corporate reorganizations or changes in business strategies of our commercial partners, which could adversely affect a commercial partner's willingness or ability to fulfill its obligations under its respective agreement; and
- our commercial partners being found in breach of local laws.

Our collaboration and licensing agreements may be terminated by our partners in the event of a breach by us of our obligations under such agreements, including our obligation to supply *EGRIFTA*™, for which we rely on third parties. If any one of our commercial partners terminates its agreement with us or fails to effectively commercialize *EGRIFTA*™, for any of the foregoing or other reasons, we may not be able to replace the commercial partner and the occurrence of any of the abovementioned events would affect our operating results.

RISKS RELATED TO RESEARCH AND DEVELOPMENT ACTIVITIES

In connection with its approval of EGRIFTA™, the FDA has required a long-term observational safety study and a Phase 4 clinical trial.

The long-term observational safety study is to evaluate the safety of long-term administration of *EGRIFTA*™ and the Phase 4 clinical trial is to assess whether *EGRIFTA*™ increases the incidence or progression of diabetic retinopathy in diabetic HIV-infected patients with lipodystrophy and excess abdominal fat. Both studies are currently recruiting patients and are being executed by EMD Serono with financial support from us. On and after the Closing Date of the EGRIFTA Transaction, we will assume responsibility for completing these studies. There can be no assurance that the two studies will be successfully completed or that the results of the studies will be positive. In the event that the studies are not completed or that the results are unfavorable, the FDA could prohibit the future sale, or put restrictions on future sale of *EGRIFTA*™ in the United States, either of which could have a material adverse effect on our business, financial condition and operating results.

We will rely on third-party service providers to conduct the long-term observational safety study and Phase 4 clinical trial for EGRIFTA™ as well as our preclinical studies and clinical trials if the research and development activities related to our product candidates are resumed. The failure by any of these third parties to comply with their obligations may delay the studies which could have an adverse effect on our research and development programs.

We have limited human resources to conduct preclinical studies and clinical trials particularly in light of our recent restructurings and will have to rely on third-party service providers to conduct our studies and trials and carry out certain data gathering and analyses in the future. The preclinical, or non-clinical, studies must be conducted in compliance with good laboratory practice, or GLP, regulations. Clinical trials must comply with good clinical practice, or GCP, requirements, which are ethical and scientific quality standards for conducting, recording and reporting clinical trials to assure integrity of study data and that the rights, safety and wellbeing of trial participants are protected. If our third-party service providers become unavailable for any reason, including as a result of the failure to comply with the rules and regulations governing the conduct of preclinical studies and clinical trials, operational failures such as equipment failures or unplanned facility shutdowns, or damage from any event such as fire, flood, earthquake, business restructuring, labour dispute or insolvency or, if they fail to perform their contractual obligations pursuant to the terms of our agreements with them, such as failing to perform the testing, compute the data or complete the reports further to the testing, we may incur delays which may be significant in connection with our post-approval commitments with the FDA for *EGRIFTA*™ and/or the planned timing of our trials and studies which could adversely affect the timing of the development program of a product candidate or the filing of an application seeking marketing approval in a jurisdiction where we rely on third-party service providers to make such filing. In addition, where we rely on such third-party service provider to help in answering any question raised by a regulatory agency during its review of one of our applications, the unavailability of such third-party service provider may adversely affect the timing of the review of an application and could ultimately delay the approval. If the damages to any of our third-party service providers are material, or, for any reason, such providers do not operate in compliance with GLP regulations or are unable or refuse to perform their contractual obligations, we would need to find alternative third-party service providers.

If we needed to change or select new third-party service providers, the planned working schedule related to preclinical studies and/or clinical trials could be delayed since the number of competent and reliable third-party service providers of preclinical and clinical work in compliance with GLP regulations is limited. In addition, if we needed to change or select new third-party service providers to carry out work in response to a regulatory agency review of one of our applications, there may be delays in responding to such regulatory agency which, in turn, may lead to delays in

commercializing a product candidate.

Any selection of new third-party service providers to carry out work related to preclinical studies and clinical trials would be time-consuming and would result in additional delays in receiving data, analysis and reports from such third-party service providers which, in turn, would delay the filing of documents with the FDA in connection with our long-term observational safety study and Phase 4 clinical trial, from and after the Closing Date of the EGRIFTA Transaction. These delays could also postpone the filing of any NDA with regulatory agencies for the purposes of obtaining regulatory approval to commercialize our product candidates. Furthermore, such delays could increase our expenditures to develop a product candidate and materially adversely affect our business, financial condition and operating results.

The conduct of clinical trials requires the enrolment of patients and difficulties in enrolling patients could delay the conduct of our clinical trials or result in their non-completion.

The conduct of clinical trials requires the enrolment of patients. We may have difficulties enrolling patients for the conduct of our long-term observational safety study and Phase 4 clinical trial mandated by the FDA, from and after the Closing Date, or our future clinical trials as a result of design protocol, the size of the patient population, the eligibility criteria to participate in the clinical trials, the availability of competing therapies, the patient referral practices of physicians and the availability of clinical trial sites. Difficulty in enrolling patients for our clinical trials could result in the cancellation of clinical trials or delays in completing them. Once patients are enrolled in a clinical trial, the occurrence of any adverse drug effects or side effects observed during the trial could result in the clinical trial being cancelled. Any of these events would have material adverse consequences on the timely development of our product candidates, the filing of an NDA, or its equivalent, with FDA or comparable regulatory agencies and the commercialization of such product candidates. Moreover, if we are unable to complete the long-term observational safety study and the Phase 4 clinical trial within the time mandated by the FDA because we have difficulties enrolling patients for these studies, the FDA could withdraw *EGRIFTA*™ from the market. Under these circumstances, our revenues and operating results would be materially adversely affected.

We have suspended all significant research and development activities related to our product candidates, including TH1173, and the discovery of new peptides until we have sufficient funds to invest in our research and development programs. We may never resume these activities, which could materially adversely affect our long-term growth and could cause us to rely solely on EGRIFTA™ as a revenue-generating asset indefinitely.

Our portfolio of product candidates is very limited and these product candidates are at early stages of development, except tesamorelin which has been approved for commercialization in the United States. As a result of business plan revisions announced in October 2012, we put on hold the launch of the Phase I clinical program for TH1173 and suspended all significant long-term research and development activities on our product candidates and the discovery of new peptides. There is no assurance that we will resume these activities and our long-term growth could be materially adversely affected.

In addition, even if we resume research and development of our product candidates, there can be no assurance that these product candidates will reach the clinical trial phase, obtain positive results in clinical trials, obtain regulatory approval or, if approved, be successfully commercialized.

RISKS RELATED TO OUR INTELLECTUAL PROPERTY

Our failure to protect our intellectual property may have a material adverse effect on our ability to develop and commercialize our products.

We will be able to protect our intellectual property rights from unauthorized use by third parties only

to the extent that our intellectual property rights are covered and protected by valid and enforceable patents, trademarks and copyrights or are effectively maintained as trade secrets. We try to protect our intellectual property position by, among other things, filing patent applications and trademark applications related to our proprietary technologies, inventions, improvements and tradenames that are important to the development of our business.

Because the patent and trademark position of pharmaceutical companies involves complex legal and factual questions, the issuance, scope, validity, and enforceability of patents and trademarks cannot be predicted with certainty. Patents and trademarks, if issued, may be challenged, invalidated or circumvented. For example, if our patents are invalidated or found to be unenforceable, we would lose the ability to exclude others from making, using or selling the inventions claimed. Moreover, an issued patent does not guarantee us the right to use the patented technology or commercialize a product using that technology. Third parties may have blocking patents that could be used to prevent us from developing our product candidates, selling our products or commercializing our patented technology. Thus, patents that we own may not allow us to exploit the rights conferred by our intellectual property protection.

Our pending patent applications may not be issued or granted as patents. Even if issued, they may not be issued with claims of sufficient breadth to protect our product candidates and technologies or may not provide us with a competitive advantage against competitors with similar products or technologies. Furthermore, others may independently develop products or technologies similar to those that we have developed or may reverse engineer or discover our trade secrets through proper means. In addition, the laws of many countries do not protect intellectual property rights to the same extent as the laws of Canada, the United States and the European Patent Convention, and those countries may also lack adequate rules and procedures for defending intellectual property rights effectively. In Brazil, where we were granted a patent covering the composition of matter for tesamorelin that is currently set to expire in 2019, we became aware that the validity of all Brazilian pharmaceutical-related patents having a term in excess of 20 years from the filing date are judicially challenged in the Brazilian courts by the *Instituto National da Propriedade Industrial*, or INPI, the Brazilian patent office. INPI alleges that all pharmaceutical-related patents granted by INPI that were filed between 1995 and 1997 and that were granted a term in excess of 20 years from the filing date are either invalid or that their terms should be reduced to 20 years from the filing date. If INPI succeeds in its argument, we may lose our patent protection on tesamorelin in Brazil, or we may have a reduction of our patent term from 2019 to 2016.

Although we have received patents from the United States Patent and Trademark Office, or USPTO, for the treatment of HIV-related lipodystrophy with tesamorelin, there can be no guarantee that, in the other countries where we filed patent applications for the treatment of HIV-related lipodystrophy, we will receive a patent or obtain granted claims of similar breadth to those granted by the USPTO. In addition, we have applied to the USPTO to obtain 1,827 days of patent term extension for U.S. patent No. 5,861,379. There is no assurance that the USPTO will issue a decision granting us the extension period sought or accept our application.

We also rely on trade secrets, know-how and technology, which are not protected by patents, to maintain our competitive position. We try to protect this information by entering into confidentiality agreements with parties who have access to such confidential information, such as our current and prospective suppliers, distributors, manufacturers, commercial partners, employees and consultants. Any of these parties may breach the agreements and disclose confidential information to our competitors. It is possible that a competitor will make use of such information, and that our competitive position could be disadvantaged.

Enforcing a claim that a third party infringes on, has illegally obtained or is using an intellectual property right, including a trade secret or know-how, is expensive and time-consuming and the outcome is unpredictable. In addition, enforcing such a claim could divert management's attention from our business. If any intellectual property right were to be infringed, disclosed to or

independently developed by a competitor, our competitive position could be harmed. Any adverse outcome of such litigation or settlement of such a dispute could subject us to significant liabilities, could put one or more of our pending patent applications at risk of being invalidated or interpreted narrowly, could put one or more of our patents at risk of not issuing, or could facilitate the entry of generic products.

Our ability to defend ourselves against infringement by third parties of our intellectual property in the United States with respect to *EGRIFTA*™ currently depends, in part, on our commercial partner's decision to bring an action against such third party. Under the terms and conditions of the EMD Serono Agreement, EMD Serono has the first right to bring an action against a third party for infringing our patent rights with respect to *EGRIFTA*™. Any delay in pursuing such action or in advising us that it does not intend to pursue the matter could decrease sales, if any, of tesamorelin for the treatment of reducing excess abdominal fat in HIV-infected patients with lipodystrophy and adversely affect our revenues. From and after the Closing Date of the EGRIFTA Transaction, we will regain all of our rights to decide whether to defend or to bring an action against such third parties.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. For example, confidential information may be disclosed, inadvertently or as ordered by the court, in the form of documents or testimony in connection with discovery requests, depositions or trial testimony. This disclosure would provide our competitors with access to our proprietary information and may harm our competitive position.

Our commercial success depends, in part, on our ability not to infringe on third party patents and other intellectual property rights.

Our capacity to commercialize our product candidates, and more particularly *EGRIFTA*™, will depend, in part, upon our ability to avoid infringing third party patents and other third-party intellectual property rights. The biopharmaceutical and pharmaceutical industries have produced a multitude of patents and it is not always easy for participants, including us, to determine which patents cover various types of products, processes of manufacture or methods of use. The scope and breadth of patents is subject to interpretation by the courts and such interpretation may vary depending on the jurisdiction where the claim is filed and the court where such claim is litigated. The fact that we own patents for tesamorelin and for the treatment of HIV-related lipodystrophy in certain jurisdictions does not guarantee that we are not infringing one or more third-party patents in such jurisdictions and there can be no guarantee that we will not infringe or violate third-party patents and other third-party intellectual property rights in the United States or other jurisdictions.

For example, EMD Serono has listed a patent held by one of its affiliates in the Orange Book under the Hatch-Waxman Act with respect to *EGRIFTA*™ in HIV-associated lipodystrophy. With the termination of the EMD Serono Agreement, EMD Serono could assert that such patent would be infringed by our continued sale of *EGRIFTA*™ in the United States. To counter that risk, we have obtained a non-exclusive license from EMD Serono's affiliate under the EMD Serono Termination Agreement in order to continue selling *EGRIFTA*™ in the United States. If we are in default under the EMD Serono Termination Agreement and such default is not cured within the agreed upon time, EMD Serono's affiliate could terminate our non-exclusive license. The termination of that license could prevent us from selling *EGRIFTA*™ in the United States if we were found to infringe the patent listed by one of EMD Serono's affiliates in the Orange Book and this could have a material adverse effect on our business, financial condition and operating results.

Patent analysis for non-infringement is based in part on a review of publicly available databases. Although we review from time to time certain databases to conduct patent searches, we do not have access to all databases. It is also possible that we will not have reviewed some of the information contained in the databases or we found it to be irrelevant at the time we conducted the

searches. In addition, because patents take years to issue, there may be currently pending applications that have not yet been published or that we are unaware of, which may issue later as patents. As a result, there can be no guarantee that we will not violate third-party patents.

Because of the difficulty in analyzing and interpreting patents, there can be no guarantee that a third party will not assert that we infringe such third-party's patents or any of its other intellectual property rights. Under such circumstances, there is no guarantee that we would not become involved in litigation. Litigation with any third party, even if the allegations are without merit, is expensive, time-consuming and would divert management's attention from the daily execution of our business plan. Litigation implies that a portion of our financial assets would be used to sustain the costs of litigation instead of being allocated to further the development of our business.

If we are involved in patent infringement litigation, we would need to prevail in demonstrating that our products do not infringe the asserted patent claims of the relevant patent, that the patent claims are invalid or that the patent is unenforceable. If we are found to infringe a third-party patent or other intellectual property right, we could be required to enter into royalty or licensing agreements on terms and conditions that may not be favorable to us, and/or pay damages, including up to treble damages in the United States (for example, if found liable of wilful infringement) and/or cease the development and commercialization of our product candidates. Even if we were able to obtain a license, the rights may be non-exclusive, which could result in our competitors gaining access to the same intellectual property and to compete with us.

We have not been served with any notice alleging that we infringe a third-party patent, but there may be issued patents that we are unaware of that our products may infringe, or patents that we believe we do not infringe but ultimately could be found to infringe. If we were to challenge the validity of a competitor's issued United States patent in a United States court, we would need to overcome a statutory presumption of validity that attaches to every United States patent. This means that, in order to prevail, we would have to present clear and convincing evidence as to the invalidity of the patent's claims. We cannot guarantee that a court would find in our favour on questions of infringement and validity. Any finding that we infringe or violate a third-party patent or other intellectual property right could materially adversely affect our business, financial condition and operating results.

LITIGATION RISKS

An adverse determination, if any, in the securities class action lawsuit currently pending against us, or any other future lawsuits in which we are a defendant, could have a material adverse effect on us.

A motion to authorize the institution of a class action was originally filed in July 2010 in the Superior Court of Québec, District of Montreal, entitled 121851 Canada Inc. v. Theratechnologies Inc. et al., Number 500-06-000-515-102. The complaint alleged that we, a director and a former executive officer violated the secondary market liability provisions of the Securities Act (Québec) by failing to disclose a material change relating to the administration of *EGRIFTA*™. The plaintiff sought damages on behalf of a class of persons who were shareholders at May 21, 2010 and who sold their common shares on May 25 or 26, 2010. On February 24, 2012, the Superior Court of Québec authorized 121851 Canada Inc. to institute a class action against us, a director and a former executive officer. On March 20, 2012, we filed a motion seeking permission to appeal this judgment with the Court of Appeal of Québec, District of Montreal, Number 500-09-022519-128, and the hearing took place on January 24, 2013. On July 17, 2013, the Court of Appeal of Québec dismissed our motion to dismiss the authorization to institute such class action and confirmed the decision of the Superior Court of Québec. On November 6, 2013, we filed a motion with the Supreme Court of Canada seeking permission to appeal the decision issued by the Court of Appeal of Québec. Such motion was granted by the Supreme Court of Canada on February 20, 2014.

In May 2013, the same plaintiff instituted a second class action based on the same facts and seeking the same conclusion as the first motion except that damages are sought under the Civil Code of Québec instead of the Securities Act (Québec). The differences between the claim made under the Securities Act (Québec) and the Civil Code of Québec rest on the type of evidence the plaintiff will need to show the court to prove its claim and the value of the damages that may be awarded to the plaintiff if it is successful in its allegations against us, a director and a former executive officer. Under the Securities Act (Québec), the plaintiff does not have to demonstrate causation between an alledged breach of the provisions of the Securities Act (Québec) and the damages incurred, if any, but the amount of damages that may be sought is limited. Damages that may be claimed under the Civil Code of Québec are not limited, but the plaintiff has to demonstrate that there is causation between the alledged breach of an obligation and the damages sought. The parties have agreed to stay this motion until a final decision is issued under the first motion.

Whether or not the plaintiff's claims are successful, this type of litigation is often expensive and diverts management's attention and resources, which could adversely affect our business financial condition and operating results. We may also be the target of similar litigation in the future. Any future litigation could result in substantial costs and divert our management's attention and resources, which could cause serious harm to our business, operating results and financial condition. We maintain liability insurance, however, if any costs or expenses associated with this or any other litigation exceed our insurance coverage, we may be forced to bear some or all of these costs and expenses directly, which could be substantial and could have a material adverse effect on our available funds and operating results.

If we fail to comply with our contractual obligations, undertakings and covenants under our agreements with our commercial partners and third-party service providers, we may be exposed to claims for damages and/or termination of these agreements, all of which could materially adversely affect the commercialization of EGRIFTA™, our capacity to generate revenues and management's attention to the development of our business.

We rely on our commercial partners to commercialize and to obtain and maintain regulatory approvals of *EGRIFTA*™ in their respective territories under our distribution and licensing agreements with each of them. We also rely on third-party service providers for sales, marketing and distribution activities in the United States and to manufacture *EGRIFTA*™ for commercialization and tesamorelin for our clinical trials. Under those agreements, we have assumed certain obligations, undertakings and covenants which, if breached by us and not remedied within the agreed upon periods, could expose us to claims for damages and/or termination of these agreements. If we are unable to meet our obligations under any of our agreements with our commercial partners and third-party service providers which results in termination of such agreements, this will materially adversely affect our business, financial condition and operating results since we rely on a limited number of commercial partners and third-party service providers to perform key services to our business. In addition, under the terms of the EMD Serono Termination Agreement, we have granted EMD Serono a security interest over all of our tesamorelin-related assets. If we are in breach of the EMD Serono Termination Agreement by failing to meet our payment obligations to EMD Serono, EMD Serono has the right to seize all of those tesamorelin-related assets. Unless we are able to generate sufficient revenues from our products, a breach of the payment provisions under the EMD Serono Termination Agreement by us will have a material adverse effect on our business and could lead to recourses under insolvency laws.

If product liability lawsuits are brought against us, they could result in costly and time-consuming litigation and significant liabilities.

Despite all reasonable efforts to ensure the safety of *EGRIFTA*™ and our other product candidates, it is possible that we or our commercial partners will sell products which are defective, to which patients react in an unexpected manner, or which are alleged to have side effects. The

development, manufacture and sale of such products may expose us to potential liability, and the pharmaceutical industry has been subject to significant product liability litigation. Any claims, with or without merit, could result in costly litigation, reduced sales, significant liabilities and diversion of our management's time and attention and could have a material adverse effect on our financial condition, business and operating results. A product liability claim could also tarnish our reputation, whether or not such claims are with or without merit.

If a product liability claim is brought against us, we may be required to pay legal and other expenses to defend the claim and, if the claim is successful, damage awards may be substantial and/or may not be covered, in whole or in part, by our insurance. We may not have sufficient capital resources to pay a judgment, in which case our creditors could levy against our assets. We may also be obligated to indemnify our commercial partners and make payments to other parties with respect to product liability damages and claims. Defending any product liability claims, or indemnifying others against those claims, could require us to expend significant financial and managerial resources.

GEO-POLITICAL RISKS

A variety of risks associated with our international business relationships could materially adversely affect our business.

International business relationships in the United States, Europe, Latin America, Africa, the Middle East and elsewhere subject us to additional risks, including:

- differing regulatory requirements for drug approvals in foreign countries;
- potentially reduced protection for intellectual property rights, including unexpected changes in the rules governing patents and their enforcement;
- potential third-party patent rights in foreign countries;
- the potential for so-called parallel importing, which is what happens when a local seller, faced with high or higher local prices, opts to import goods from a foreign market, with low or lower prices, rather than buying them locally;
- unexpected changes in tariffs, trade barriers and regulatory requirements;
- economic weakness, including inflation, or political instability, particularly in foreign economies and markets;
- compliance with tax, employment, immigration and labour laws for employees traveling abroad;
- foreign taxes;
- foreign exchange contracts and foreign currency fluctuations, which could result in increased operating expenses and reduced revenue, and other obligations incident to doing business in another country;
- workforce uncertainty in countries where labour unrest is more common than in the United States and Canada;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and
- business interruptions resulting from geo-political actions, including war and terrorism, or natural disasters, including earthquakes, volcanoes, typhoons, floods, hurricanes and fires.

These and other risks of international business relationships may materially adversely affect our

business, financial condition and operating results.

OTHER RISKS RELATED TO OUR BUSINESS

On the Closing Date, we will contract a debt under the EMD Serono Termination Agreement and will collateralize most of our assets. We may not be able to sell the collateralized assets if we need capital and our breach of the payment obligations under the EMD Serono Termination Agreement could allow EMD Serono to seize those assets, all of which would have a material adverse effect on our business.

Under the terms of the EMD Serono Termination Agreement, we agreed to pay an early termination fee of US $20,000,000, or Early Termination Fee, over a five-year period starting on the first anniversary of the Closing Date. We also agreed to pay EMD Serono an undisclosed increasing royalty, or Royalties, based on annual net sales. The Royalties will be paid until an undisclosed cumulative aggregate amount is reached or until January 1, 2024, the first of these events to occur.

In order to secure the payment of the Early Termination Fee, we granted EMD Serono a security interest on our present and future worldwide corporeal and incorporeal movable property related to tesamorelin until such time as the amount of US $20,000,000 has been reimbursed in full to EMD Serono. Thereafter, the Corporation and EMD Serono agreed to reduce the security interest to all present and future corporeal and incorporeal movable property related to tesamorelin in the United States only to secure the payment of the Royalties.

The granting of a security interest over our present and future worldwide corporeal and incorporeal movable property related to tesamorelin could prevent us from being able to dispose of these assets in the event we need additional capital to meet our obligations or expand our business. In addition, if we fail to meet our payment obligations to EMD Serono, EMD Serono may seize the assets subject to the security interest and, to the extent we have no other revenue-generating products, we could have to discontinue our operations and could resort to insolvency laws.

We have a history of net losses and we may never achieve consistent profitability.

We have been reporting losses since our inception (except for the financial years ended November 30, 2010, 2001 and 2000) and, as at November 30, 2013, we had an accumulated deficit of $271 million.

Our profitability depends on, among other things, our commercial partners' ability and willingness to successfully commercialize *EGRIFTA*™ and to obtain regulatory approvals of *EGRIFTA*™ in certain countries of Latin America and Canada. From the Closing Date of the EGRIFTA Transaction, our profitability will also depend on our capacity to pursue the commercialization of *EGRIFTA*™ successfully through the implementation of a low-cost and effective distribution network, the recruitment of talented personnel by inVentiv Health, the deployment of an effective marketing campaign and the obtaining of reimbursement coverage for *EGRIFTA*™ under U.S. Medicare and Medicaid programs and under private-health insurers programs. There is no guarantee that our commercial partners will succeed in commercializing *EGRIFTA*™, that *EGRIFTA*™ and our product candidates will ever receive approval for commercialization in any jurisdictions and that we will be able to implement any of the abovementioned factors when we will be commercializing *EGRIFTA*™ in the United States. In addition, if revenues grow more slowly than we anticipate or if our operating expenses exceed our expectations, our business, financial condition and operating results could be materially adversely affected and we may never sustain profitability.

We may require additional funding and may not be able to raise the capital necessary to fund all or part of our capital requirements, including resuming the research and development programs of our product candidates and their commercialization.

We do not presently generate significant recurrent revenues and may need financing in order to fund all or part of our capital requirements to sustain our growth, to resume research and development of new and current product candidates, to conduct clinical programs, to develop our marketing and commercial capabilities and to meet our compliance obligations with various rules and regulations to which we are subject. In the past, we have been financed through public equity offerings in Canada and private placements of our equity securities, as well as through tax credits. Since the launch of *EGRIFTA*™, we have also been financing our activities through upfront payments, milestone payments and royalties received from EMD Serono. We may need to undertake additional equity offerings to raise capital, the size of which cannot be predicted. However, the market conditions or our business performance may prevent us from having access to the public market in the future at the times or in the amounts necessary. Therefore, there can be no guarantee that we will be able to continue to raise additional equity capital by way of public or private equity offerings in the future. In such a case, we would have to use other means of financing, such as issuing debt instruments or entering into private financing or credit agreements, the terms and conditions of which may not be favorable to us. In addition, the issuance and sale of substantial amounts of equity, or other securities, or the perception that such issuances and sales may occur could adversely affect the market price of our common shares.

We depend on our current personnel to pursue our business plan and the loss of our key employees and the inability to attract and hire highly qualified individuals to replace the loss of our current key employees could have a material adverse effect on our business and growth potential.

Because of the specialized nature of our business, our success depends to a significant extent on the continued service of our key employees and on our ability to be able to attract, retain and motivate qualified manufacturing, managerial and scientific personnel. We have entered into employment agreements with our executive officers and granted options to all of our executive officers and employees as a retention mechanism, but such agreements and options do not guarantee that our executive officers and employees will remain employed by us for any significant period of time, or at all. In addition, we have a limited workforce to pursue our business plan and the loss of any of our key employees could materially adversely affect our business. From and after the Closing Date of the EGRIFTA Transaction, our third-party service provider, inVentiv Health, will have hired sales representatives, medical science liaison personnel and other individuals to assist us with the commercialization of *EGRIFTA*™ in the United States. Although these individuals are not our employees, the loss of any of those individuals and the inability of inVentiv Health to attract and retain these individuals could have a material adverse effect on the commercialization of *EGRIFTA*™ and, accordingly, our business, financial condition and operating results.

There is intense competition for qualified personnel in the areas of our activities, and we and our third-party service providers may not be able to continue to attract and retain the qualified personnel necessary for the development of our business. Our failure and the failure of our third-party service providers to attract and retain such personnel could impose significant limits on our business operations and hinder our ability to successfully and efficiently realize our business plan.

We may not achieve our publicly announced milestones or our commercial objectives on time.

From time to time, we publicly announce the timing of certain events to occur or the attainment of certain commercial objectives. These statements are forward-looking and are based on the best estimate of management at the time, relating to the occurrence of such events. However, the actual timing of such events or our ability to achieve these objectives may differ from what has been publicly disclosed. Events such as completion of a clinical program, discovery of a new product candidate, filing of an application to obtain regulatory approval, beginning of commercialization of a product, announcement of additional clinical programs for a product candidate or levels of sales of a product may vary from what is publicly disclosed. These variations may occur as a result of a

series of events, including the nature of the results obtained during a clinical trial or during a research phase, problems with a supplier or a commercial partner, change in the procurement policy of a commercial partner or any other event having the effect of delaying the publicly announced timeline or reducing the publicly announced commercial objective. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law. Any variation in the timing of certain events having the effect of postponing such events or any variation in the occurrence of certain events having the effect of altering publicly announced commercial objectives could have a material adverse effect on our business, financial condition and operating results.

In connection with the reporting of our financial results, we are required to make estimates and assumptions, which involve uncertainties and any significant differences between our estimates and actual results could have an adverse impact on our reported financial position, operating results and cash flows.

The preparation of our consolidated financial statements requires that we 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. On an ongoing basis, our management evaluates our critical and other significant estimates and assumptions, including among others, those associated with revenue and deferred revenue, stock option plan, income taxes, onerous lease provision and contingent liabilities such as clinical trial expenses, recoverability of inventories, recoverability of tax credits and grants receivable and capitalization of development expenditures. Any significant differences between our actual results and our estimates and assumptions could negatively impact our reported financial position, operating results and cash flows.

If we identify a material weakness in our internal controls over financial reporting, our ability to meet our reporting obligations and the trading price of our common shares could be negatively affected.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Accordingly, a material weakness increases the risk that the financial information we report contains material errors.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies. In addition, we are required under Canadian and American securities laws to report annually on our internal control over financial reporting. Any system of internal controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Our independent auditors do not certify the effectiveness of our internal controls over financial reporting because we are a non-accelerated filer. If we determine that our internal controls over our financial reporting are not effective, or we discover areas that need improvement in the future, these shortcomings could have an adverse effect on our business and financial results, and the price of our common shares could be negatively affected.

If we cannot conclude that we have effective internal controls over our financial reporting, investors could lose confidence in the reliability of our financial statements, which could lead to a decline in our stock price. Failure to comply with reporting requirements could also subject us to sanctions and/or investigations by the Canadian and American regulatory authorities.

RISKS RELATED TO OUR COMMON SHARES

Our share price has been volatile, and an investment in our common shares could suffer a decline in value.

Since our initial public offering in Canada, our valuation and share price have had no meaningful relationship to current or historical financial results, asset values, book value or many other criteria based on conventional measures of the value of common shares. In the past, the market price of our common shares has fluctuated and will continue to fluctuate due to various factors including the risk factors described herein and other circumstances beyond our control. An investment in our common shares could decline in value or fluctuate significantly.

Our revenues and expenses may fluctuate significantly and any failure to meet financial expectations may disappoint securities analysts or investors and result in a decline in the price of our common shares.

Our revenues and expenses have fluctuated in the past and are likely to do so in the future. These fluctuations could cause our share price to decline. Some of the factors that could cause revenues and expenses to fluctuate include the following:

- the level of sales of *EGRIFTA*^{TM} in the United States;
- the inability to complete product development in a timely manner that results in a failure or delay in receiving the required regulatory approvals or allowances to commercialize product candidates;
- the timing of regulatory submissions and approvals;
- the timing and willingness of any current or future collaborators to invest the resources necessary to commercialize our product candidates;
- the outcome of any litigation;
- payment of fines or penalties for violations of laws;
- changes in foreign currency fluctuations;
- the timing of achievement and the receipt of milestone or royalty payments from current or future third parties;
- failure to enter into new or the expiration or termination of current agreements with third parties; and
- failure to introduce our product candidates to the market in a manner that generates anticipated revenues.

If our quarterly operating results fall below the expectations of investors or securities analysts, the price of our common shares could decline substantially. Furthermore, any quarterly fluctuations in our operating results may, in turn, cause the price of our stock to fluctuate substantially.

We do not intend to pay dividends on our common shares and, consequently, the ability of investors to achieve a return on their investment will depend on appreciation in the price of our common shares.

We have never declared or paid any cash dividend on our common shares and we do not currently intend to do so in the foreseeable future. We currently anticipate that we will retain future earnings

for the development, operation and expansion of our business. Therefore, the success of an investment in our common shares will depend upon any future appreciation in their value. There is no guarantee that our common shares will appreciate in value or even maintain the price at which our shareholders have purchased their shares.

Our shareholder rights plan, the EMD Serono Termination Agreement and certain Canadian laws could delay or deter a change of control.

Our shareholder rights plan entitles a rights holder, other than a person or group holding 20% or more of our common shares, to subscribe for our common shares at a discount of 50% to the market price at that time, subject to certain exceptions.

The EMD Serono Termination Agreement provides also that in the event there occurs a change of control of the Corporation within eighteen (18) months after the Closing Date, EMD Serono has the option to accelerate the full payment of the Early Termination Fee and to seek the payment of an amount intended to equal the net present value of the maximum future undisclosed Royalties. If such change of control occurs after eighteen (18) months after the Closing Date, EMD Serono has the option to accelerate the payment of all of the unpaid Early Termination Fee.

The Investment Canada Act (Canada) subjects an acquisition of control of a company by a non-Canadian to government review if the value of the assets as calculated pursuant to the legislation exceeds a threshold amount. A reviewable acquisition may not proceed unless the relevant minister is satisfied that the investment is likely to be a net benefit to Canada.

Any of the foregoing could prevent or delay a change of control and may deprive or limit strategic opportunities for our shareholders to sell their shares.

We believe that we are not currently a PFIC for U.S. federal income tax purposes, but PFIC classification is fundamentally factual in nature, determined annually and subject to change.

We do not believe that we are currently a passive foreign investment company, or PFIC, for U.S. federal income tax purposes but we cannot warrant that our status will remain the same in a foreseeable future. If we were a PFIC, or if we were to become a PFIC in future taxable years, while a U.S. person is the holder of our common shares, such person would generally be subject to adverse U.S. federal income tax consequences, including the treatment of gain realized on the sale of common shares as ordinary (rather than capital gain) income, potential interest charges on those gains and certain other distributions made by us and ineligibility for the preferential tax rates on dividends paid by qualified foreign corporations generally available to certain non-corporate U.S. persons.

U.S. persons are urged to consult their tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of the acquisition, ownership, and disposition of our common shares as may be applicable to their particular circumstances.

As a foreign private issuer, we are subject to different U.S. securities laws and rules than a domestic U.S. issuer, which may limit the information publicly available to our shareholders.

As a foreign private issuer we are not required to comply with all the periodic disclosure requirements of the Securities Exchange Act of 1934, as amended, or Exchange Act, and therefore there may be less publicly available information about us than if we were a U.S. domestic issuer. In addition, our officers, directors, and principal shareholders are exempt from the reporting and “short swing” profit recovery provisions of Section 16 of the Exchange Act, as amended, and the rules promulgated thereunder. Therefore, our shareholders may not know on a timely basis when our officers, directors and principal shareholders purchase or sell our common shares.

Further Information on Theratechnologies

Further information on Theratechnologies, including our Annual Report on Form 20-F, is available on the SEDAR website at www.sedar.com.