

# **Theratechnologies Inc.**

Interim Consolidated Financial Statements  
(Unaudited)

**February 28, 2015 and 2014**  
(in thousands of Canadian dollars)

# Theratechnologies Inc.

## Interim Consolidated Statements of Financial Position

(Unaudited) Erreur ! Insertion automatique non définie.

(in thousands of Canadian dollars)

|   | Note | As at<br>February 28,<br>2015<br>\$ | As at<br>November 30,<br>2014<br>\$ |
|---|------|-------------------------------------|-------------------------------------|
| <b>Assets</b>                                 |      |                                     |                                     |
| <b>Current assets</b>                         |      |                                     |                                     |
| Cash  |      | 3,965                               | 694                                 |
| Bonds   |      | -                                   | 2,484                               |
| Trade and other receivables                   |      | 2,538                               | 2,359                               |
| Inventories                                   |      | 11,777                              | 10,618                              |
| Prepaid expenses                              |      | 1,752                               | 1,173                               |
| Derivative financial assets                   |      | 246                                 | 126                                 |
| <b>Total current assets</b>                   |      | <u>20,278</u>                       | <u>17,454</u>                       |
| <b>Non-current assets</b>                     |      |                                     |                                     |
| Property and equipment                        |      | 107                                 | 146                                 |
| Intangible assets                             |      | 15,981                              | 15,054                              |
| <b>Total non-current assets</b>               |      | <u>16,088</u>                       | <u>15,200</u>                       |
| <b>Total assets</b>                           |      | <u>36,366</u>                       | <u>32,654</u>                       |
| <b>Liabilities</b>                            |      |                                     |                                     |
| <b>Current liabilities</b>                    |      |                                     |                                     |
| Accounts payable and accrued liabilities      |      | 8,528                               | 7,213                               |
| Provisions                                    | 7    | 1,096                               | 418                                 |
| Current portion of long-term obligation       | 8    | 3,327                               | 3,682                               |
| Deferred revenue                              |      | -                                   | 1                                   |
| <b>Total current liabilities</b>              |      | <u>12,951</u>                       | <u>11,314</u>                       |
| <b>Non-current liabilities</b>                |      |                                     |                                     |
| Other liabilities                             |      | -                                   | 2                                   |
| Long-term obligation                          | 8    | 15,820                              | 13,470                              |
| <b>Total non-current liabilities</b>          |      | <u>15,820</u>                       | <u>13,472</u>                       |
| <b>Total liabilities</b>                      |      | <u>28,771</u>                       | <u>24,786</u>                       |
| <b>Equity</b>                                 |      |                                     |                                     |
| <b>Share capital</b>                          | 9    | 280,872                             | 280,872                             |
| <b>Contributed surplus</b>                    |      | 8,328                               | 8,313                               |
| <b>Deficit</b>                                |      | (282,296)                           | (281,382)                           |
| <b>Accumulated other comprehensive income</b> |      | 691                                 | 65                                  |
| <b>Total equity</b>                           |      | <u>7,595</u>                        | <u>7,868</u>                        |
| <b>Total liabilities and equity</b>           |      | <u>36,366</u>                       | <u>32,654</u>                       |
| <b>Commitments</b>                            | 10   |                                     |                                     |

The accompanying notes are an integral part of these interim consolidated financial statements.

# Theratechnologies Inc.

## Interim Consolidated Statements of Comprehensive (Loss) Income (Unaudited) Erreur ! Insertion automatique non définie.

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

|   | Note | For the three-month periods<br>ended February 28, |                |
|---|------|---|----------------|
|   |      | 2015<br>\$  | 2014<br>\$     |
| <b>Revenue</b>  |      |   |                |
| Net sales   |      | 4,567   | 675            |
| Research services – Up-front payments and initial technology<br>access fees                                     |      | -   | 320            |
| Royalties and licence fees  |      | 4   | 677            |
|   |      | <u>4,571</u>                                      | <u>1,672</u>   |
| <b>Operating expenses</b>   |      |   |                |
| Cost of sales   |      |   |                |
| Cost of goods sold  |      | 641   | 600            |
| Unallocated production costs  |      | -   | 1,025          |
|   |      | <u>641</u>  | <u>1,625</u>   |
| Research and development expenses   |      | 1,120   | 1,296          |
| Selling and market development expenses   | 5    | 2,516   | 1,379          |
| General and administrative expenses   |      | 1,020   | 970            |
|   |      | <u>5,297</u>                                      | <u>5,270</u>   |
| <b>Loss from operating activities</b>   |      | <u>(726)</u>                                      | <u>(3,598)</u> |
| Finance income  | 6    | 258   | 105            |
| Finance costs   | 6    | (436)   | (33)           |
|   |      | <u>(178)</u>                                      | <u>72</u>      |
| <b>Loss before income taxes</b>   |      | <u>(904)</u>                                      | <u>(3,526)</u> |
| <b>Income tax expense</b>   |      | <u>(10)</u>                                       | <u>(8)</u>     |
| <b>Net loss for the period</b>  |      | <u>(914)</u>                                      | <u>(3,534)</u> |
| <b>Other comprehensive income (loss), net of tax</b>  |      |   |                |
| Items that may be reclassified to profit (loss) in the future:  |      |   |                |
| Net change in fair value of available-for-sale financial assets,<br>net of tax                                  |      | (5)   | (25)           |
| Net change in fair value of available-for-sale financial assets<br>transferred to net profit (loss), net of tax |      | (60)  | (25)           |
| Exchange differences on translation   |      | 691   | -              |
|   |      | <u>626</u>  | <u>(50)</u>    |
| <b>Total comprehensive loss for the period</b>  |      | <u>(288)</u>                                      | <u>(3,584)</u> |
| Basic and diluted loss per share  | 9    | <u>(0.01)</u>                                     | <u>(0.06)</u>  |

The accompanying notes are an integral part of these interim consolidated financial statements.

# Theratechnologies Inc.

## Interim Consolidated Statements of Changes in Equity

(Unaudited) Erreur ! Insertion automatique non définie.

(in thousands of Canadian dollars)

|   |                     |              |                              |               |   |             | For the three-month period ended<br>February 28, 2014 |
|---|---------------------|--------------|------------------------------|---------------|---|-------------|---|
| <u>Share capital</u>  |                     |              |                              |               |   |             |   |
| Note  | Number<br>of shares | Amount<br>\$ | Contributed<br>surplus<br>\$ | Deficit<br>\$ | Accumulated<br>other<br>comprehensive<br>income<br>\$ | Total<br>\$ |   |
| <b>Balance as at November 30, 2013</b>  | 61,010,603          | 280,872      | 8,232                        | (270,841)     | 265   | 18,528      |   |
| <b>Total comprehensive loss for the period</b>  |                     |              |                              |               |   |             |   |
| Net loss for the period   |                     |              |                              | (3,534)       | -   | (3,534)     |   |
| Other comprehensive loss  |                     |              |                              |               |   |             |   |
| Net change in fair value of available-for-sale<br>financial assets, net of tax                              |                     |              |                              | -             | (25)  | (25)        |   |
| Net change in fair value of available-for-sale<br>financial assets transferred to net profit,<br>net of tax |                     |              |                              | -             | (25)  | (25)        |   |
| Total comprehensive loss for the period   |                     |              |                              | (3,534)       | (50)  | (3,584)     |   |
| <b>Transactions with owners, recorded directly<br/>in equity</b>  |                     |              |                              |               |   |             |   |
| Share-based compensation for stock option plan  | 9                   | -            | 19                           | -             | -   | 19          |   |
| Total contributions by owners   |                     | -            | 19                           | -             | -   | 19          |   |
| <b>Balance as at February 28, 2014</b>  | 61,010,603          | 280,872      | 8,251                        | (274,375)     | 215   | 14,963      |   |
|   |                     |              |                              |               |   |             | For the three-month period ended<br>February 28, 2015 |
| <u>Share capital</u>  |                     |              |                              |               |   |             |   |
| Note  | Number<br>of shares | Amount<br>\$ | Contributed<br>surplus<br>\$ | Deficit<br>\$ | Accumulated<br>other<br>comprehensive<br>income<br>\$ | Total<br>\$ |   |
| <b>Balance as at November 30, 2014</b>  | 61,010,603          | 280,872      | 8,313                        | (281,382)     | 65  | 7,868       |   |
| <b>Total comprehensive loss for the period</b>  |                     |              |                              |               |   |             |   |
| Net loss for the period   |                     |              |                              | (914)         | -   | (914)       |   |
| Other comprehensive loss  |                     |              |                              |               |   |             |   |
| Net change in fair value of available-for-sale<br>financial assets, net of tax                              |                     |              |                              | -             | (5)   | (5)         |   |
| Net change in fair value of available-for-sale<br>financial assets transferred to net profit,<br>net of tax |                     |              |                              | -             | (60)  | (60)        |   |
| Exchange differences on translation   |                     |              |                              | -             | 691   | 691         |   |
| Total comprehensive loss for the period   |                     |              |                              | (914)         | 626   | (288)       |   |
| <b>Transactions with owners, recorded directly<br/>in equity</b>  |                     |              |                              |               |   |             |   |
| Share-based compensation for stock option plan  | 9                   | -            | 15                           | -             | -   | 15          |   |
| Total contributions by owners   |                     | -            | 15                           | -             | -   | 15          |   |
| <b>Balance as at February 28, 2015</b>  | 61,010,603          | 280,872      | 8,328                        | (282,296)     | 691   | 7,595       |   |

The accompanying notes are an integral part of these interim consolidated financial statements.

# Theratechnologies Inc.

## Interim Consolidated Statements of Cash Flows (Unaudited) Erreur ! Insertion automatique non définie.

(in thousands of Canadian dollars)

|   | Note | For the three-month periods<br>ended February 28, |                |
|---|------|---|----------------|
|   |      | 2015<br>\$  | 2014<br>\$     |
| <b>Cash flows from</b>  |      |   |                |
| <b>Operating activities</b>   |      |   |                |
| Net loss for the period   |      | (914)   | (3,534)        |
| Adjustments for   |      |   |                |
| Depreciation of property and equipment                                |      | 4   | 14             |
| Amortization of intangible assets                                     |      | 455   | -              |
| Gain on sale of property and equipment                                |      | (21)  | -              |
| Change in deferred revenue  |      | (1)   | (311)          |
| Share-based compensation for stock option plan                        | 9    | 15  | 19             |
| Income tax expense  |      | 10  | 8              |
| Writedown of inventories  |      | -   | 936            |
| Lease inducements and amortization                                    |      | (2)   | (8)            |
| Change in fair value of derivative financial assets                   |      | (105)   | (56)           |
| Change in fair value of liability related to deferred stock unit plan |      | 66  | 61             |
| Interest income   |      | (10)  | (80)           |
| Interest received   |      | 86  | 128            |
| Effect of change in foreign exchange                                  |      | 382   | -              |
| Accretion expense   | 6    | 574   | -              |
| Gain on long-term obligation renegotiation                            | 6    | (188)   | -              |
|   |      | <u>351</u>  | <u>(2,823)</u> |
| Changes in operating assets and liabilities                           |      |   |                |
| Trade and other receivables   |      | 39  | 192            |
| Inventories   |      | (167)   | 56             |
| Prepaid expenses  |      | (454)   | (38)           |
| Accounts payable and accrued liabilities                              |      | 335   | 308            |
| Provisions  |      | 616   | -              |
|   |      | <u>369</u>  | <u>518</u>     |
| <b>Cash flows from (used in) operating activities</b>                 |      | <u>720</u>  | <u>(2,305)</u> |
| <b>Investing activities</b>   |      |   |                |
| Proceeds from sale of bonds   |      | 2,333   | 1,893          |
| Proceeds from sale of property and equipment                          |      | 68  | -              |
| Payment of other assets   |      | -   | (341)          |
| Proceeds from disposal of derivative financial assets                 |      | -   | 23             |
| <b>Cash flows from investing activities</b>                           |      | <u>2,401</u>                                      | <u>1,575</u>   |
| <b>Net change in cash for the period</b>                              |      | <u>3,121</u>                                      | <u>(730)</u>   |
| <b>Cash – Beginning of period</b>                                     |      | 694   | 967            |
| <b>Effect of foreign exchange on cash</b>                             |      | <u>150</u>  | <u>-</u>       |
| <b>Cash – End of period</b>   |      | <u>3,965</u>                                      | <u>237</u>     |

See note 11 for other information.

The accompanying notes are an integral part of these interim consolidated financial statements.

# Theratechnologies Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited) Erreur ! Insertion automatique non définie. February 28, 2015 and 2014

---

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

### 1 The reporting entity and its future operations

Theratechnologies Inc. is a specialty pharmaceutical company addressing unmet medical needs in metabolic disorders to promote healthy ageing and an improved quality of life.

The interim consolidated financial statements include the accounts of Theratechnologies Inc. and its wholly owned subsidiaries (together referred to as the “Company” and individually as the “subsidiaries of the Company”).

Theratechnologies Inc. is governed by the Business Corporations Act (Quebec) and is domiciled in Quebec, Canada. The Company is located at 2015 Peel Street, 5th floor, Montréal, Quebec H3A 1T8.

The Company’s ability to generate revenue is currently solely based on the commercialization of *EGRIFTA*<sup>TM</sup> in the United States.

During the last fiscal year, the Company experienced manufacturing difficulties at its third party manufacturer, which led to shortages of *EGRIFTA*<sup>TM</sup> and negatively impacted sales and operating results. The Company ceased its manufacturing activities, and there was no inventory of finished goods available. A plan was developed based on reverting to the initial presentation of *EGRIFTA*<sup>TM</sup> (1 mg/vial), which was supplied without any commercial delays during the first two years of marketing the product. In early September 2014, shipments of *EGRIFTA*<sup>TM</sup> resumed using the 1 mg/vial presentation, allowing the Company to resume revenue generation and replenish its inventories.

On December 13, 2013, the Company announced that it had reached an agreement with EMD Serono Inc. (EMD Serono) to regain commercialization rights for *EGRIFTA*<sup>TM</sup> in the United States (EMD Serono Termination Agreement). The closing of the transaction occurred on May 1, 2014. Operations of the Company have significantly changed upon the completion of this transaction, which may impact the risk profile of its cash flows and its contractual obligations with respect to the Early Termination Fee (see note 8, long-term obligation). EMD Serono subsequently agreed to a rescheduling of the May 1, 2015 payment due under the long-term obligation.

The Company believes that it will be able to adequately fund its operations and meet its cash flow requirements for the next 12 months. However, in the future, this determination could be impacted if it encounters a significant shortfall in expected revenues.

### 2 Basis of preparation

#### Accounting framework

These unaudited interim consolidated financial statements (interim financial statements), including comparative information, have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting.

# **Theratechnologies Inc.**

## **Notes to Interim Consolidated Financial Statements**

**(Unaudited) Erreur ! Insertion automatique non définie. February 28, 2015 and 2014**

---

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

Certain information, in particular the accompanying notes normally included in the annual consolidated financial statements prepared in accordance with IFRS, has been omitted or condensed. These interim financial statements do not include all disclosures required under IFRS and, accordingly, should be read in conjunction with the annual consolidated financial statements for the year ended November 30, 2014 and the notes thereto. These interim financial statements have not been reviewed by the Company's auditors.

### **Summary of accounting policies**

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the annual consolidated financial statements as at November 30, 2014.

Other new or amended accounting standards had no impact on the Company's accounting methods.

### **Basis of measurement**

The Company's interim financial statements have been prepared on a going concern and historical cost basis, except for available-for-sale financial assets, derivative financial assets, liabilities related to the deferred stock unit plan and derivative financial liabilities, which are measured at fair value.

### **Use of estimates and judgments**

The preparation of the Company's interim 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 interim financial statements and the reported amounts of revenues and expenses during the reporting period.

Information about critical judgments in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the interim financial statements are disclosed in note 2 of the annual consolidated financial statements as at November 30, 2014.

### **Functional and presentation currency**

Effective December 1, 2014, the Company changed its functional currency to the United States dollar (USD) from the Canadian dollar (CAD). This is a result of the Company's increased exposure to the USD through increased operational activity and sales in the United States. As a result, the Company has determined that the functional currency effective December 1, 2014 is the USD.

In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, the Company is required to translate all amounts for the December 1, 2014 consolidated statement of financial position into the new functional currency using the exchange rate in effect at the date of the change.

These interim financial statements are presented in CAD since management believes that this currency is more useful for the users of the interim financial statements. The exchange difference resulting from the translation is included in accumulated other comprehensive income presented in equity.

# **Theratechnologies Inc.**

## Notes to Interim Consolidated Financial Statements

(Unaudited) Erreur ! Insertion automatique non définie. February 28, 2015 and 2014

---

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

All financial information presented in CAD has been rounded to the nearest thousand.

### **3 Recent changes in accounting standards**

#### **New or revised standards and interpretations issued but not yet adopted**

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

##### IFRS 9, Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace International Accounting Standard (IAS) 39, Financial Instruments – Recognition and Measurement. The final version of IFRS 9 supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January 1, 2018.

##### IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers.

IFRS 15 supersedes the following standards: IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.



# Theratechnologies Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited) Erreur ! Insertion automatique non définie. February 28, 2015 and 2014

---

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

This standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its interim financial statements.

### 4 Revenue

#### AOP Orphan Pharmaceuticals

On February 25, 2015, the Company entered into a distribution and licensing agreement with AOP Orphan Pharmaceuticals AG (AOP) for the distribution and commercialization of *EGRIFTA*<sup>TM</sup> in several European countries.

Under the terms of the agreement, AOP will be responsible to conduct all regulatory activities to obtain marketing authorizations for *EGRIFTA*<sup>TM</sup> on a country-by-country basis in the territory. Prior to receiving such marketing authorizations, AOP intends to distribute *EGRIFTA*<sup>TM</sup> in the territory through Named Patient Sales Programs.

The Company will be responsible for the manufacture of *EGRIFTA*<sup>TM</sup> and its supply to AOP at a predetermined transfer price. Moreover, AOP will pay royalties on net sales of *EGRIFTA*<sup>TM</sup> over a certain price level. The AOP agreement further provides for a milestone payment upon obtaining marketing authorizations, pricing and reimbursement approvals in countries totalling a certain number of inhabitants, as well as milestone payments upon reaching certain levels of cumulative net sales of *EGRIFTA*<sup>TM</sup> in the territory. An up-front payment of 150,000 Euros is associated with the execution of the Agreement and has been received on March 19, 2015. Including that upfront payment, milestone payments could potentially reach a combined total of 3 million Euros. The term of the Agreement varies on a country-by-country basis and extends for seven years from the first sales of *EGRIFTA*<sup>TM</sup> in each country or February 25, 2025, whichever is later.

### 5 Selling and market development expenses

|   | For the three-month periods<br>ended February 28, |              |
|---|---|--------------|
|   | 2015<br>\$  | 2014<br>\$   |
| Implementation fees                     | 25  | 906          |
| Selling and market development expenses | 2,036   | 473          |
| Amortization of intangible assets       | 455   | -            |
|   | <u>2,516</u>                                      | <u>1,379</u> |

# Theratechnologies Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited) Erreur ! Insertion automatique non définie. February 28, 2015 and 2014

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

### 6 Finance income and finance costs

|   | Note | For the three-month periods<br>ended February 28, |            |
|---|------|---|------------|
|   |      | 2015<br>\$  | 2014<br>\$ |
| Interest income   |      | 10  | 80         |
| Net gain on disposal of available-for-sale financial assets |      | 60  | 25         |
| Gain on long-term obligation renegotiation                  | 8    | 188   | -          |
| Finance income  |      | 258   | 105        |
| Accretion expense   |      | (574)   | -          |
| Bank charges  |      | -   | (6)        |
| Net foreign currency gain (loss)                            |      | 105   | (17)       |
| Gain (loss) on financial instruments carried at fair value  |      | 33  | (10)       |
| Finance costs   |      | (436)   | (33)       |
| Net finance (loss) income recognized in net loss            |      | (178)   | 72         |

### 7 Provisions

|  | Chargebacks<br>and rebates<br>\$ | Returns<br>\$ | Total<br>\$ |
|--|----------------------------------|---------------|-------------|
| <b>Balance as at November 30, 2014</b> | 374                              | 44            | 418         |
| Provisions made during the period      | 686                              | 17            | 703         |
| Provisions used during the period      | (25)                             | -             | (25)        |
| <b>Balance as at February 28, 2015</b> | 1,035                            | 61            | 1,096       |

### 8 Long-term obligation

|   | 2015<br>\$ |
|---|------------|
| Early Termination Fee                       | 19,147     |
| Current portion                             | (3,327)    |
| Non-current portion as at February 28, 2015 | 15,820     |

Under the terms of the EMD Sero Termination Agreement, the Company agreed to pay an early termination fee of US\$20,000 (the Early Termination Fee) evenly over a five-year period starting on May 1, 2015. In light of the delay in the commercialization of *EGRIFTA*<sup>TM</sup> caused by the supply problems incurred in 2014, the Company restructured the amount and payment terms of the initial long-term obligation payment, which was

# Theratechnologies Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited) Erreur ! Insertion automatique non définie. February 28, 2015 and 2014

---

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

due on May 1, 2015. Under the new terms, the first payment will total US\$4,168 (previously US\$4,000) and will be paid in three unequal installments as follows: US\$500 on May 1, 2015; US\$1,551 on August 31, 2015; and US\$2,117 on November 30, 2015. The remaining annual payments of US\$4,000 are unchanged and are due on May 1 of each year beginning on May 1, 2016 up to May 1, 2019, bringing the total Early Termination Fee to US\$20,168.

The obligation is initially recognized at fair value, and is considered Level 3 in the fair value hierarchy for financial instruments. The valuation model considered the present value of expected payments, discounted using a risk-adjusted discount rate. The significant unobservable input used is the risk-adjusted discount rate of 13.5%. Effective interest rate of 13.5% is calculated annually and accounted for in accretion of the obligation value.

Long-term obligation is payable as follows:

|                            | Capital<br>\$ | Accrued<br>interest<br>\$ | Total<br>\$ |
|----------------------------|---------------|---------------------------|-------------|
| Less than one year         | 3,220         | 1,991                     | 5,211       |
| Between one and five years | 15,820        | 4,185                     | 20,005      |
|                            | 19,040        | 6,176                     | 25,216      |

## 9 Share capital

### a) Stock option plan

The Company has established a stock option plan under which it may grant its directors, officers, employees, researchers and consultants non-transferable options for the purchase of common shares. The exercise date of an option may not be later than ten years after the grant date. A maximum number of 5,000,000 options can be granted under the plan. Generally, the options vest at the date of the grant or over a period of up to five years. As at February 28, 2015, 1,497,472 options were available to be granted by the Company (February 28, 2014 – 1,462,472).

All options are to be settled by the physical delivery of the shares.

# Theratechnologies Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited) Erreur ! Insertion automatique non définie. February 28, 2015 and 2014

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

Changes in the number of options outstanding were as follows:

|                                 | Number<br>of options | Weighted<br>average<br>exercise<br>price<br>per option<br>\$ |
|---------------------------------|----------------------|--|
| Options as at November 30, 2013 | 1,875,837            | 2.30   |
| Granted                         | 125,000              | 0.50   |
| Forfeited                       | (123,168)            | 3.12   |
|                                 | <hr/>                |  |
| Options as at February 28, 2014 | 1,877,669            | 2.13   |
|                                 | <hr/>                |  |
| Options as at November 30, 2014 | 1,862,669            | 2.12   |
| Granted                         | -                    | -  |
| Forfeited                       | (20,000)             | 0.38   |
|                                 | <hr/>                |  |
| Options as at February 28, 2015 | 1,842,669            | 2.14   |

During the three-month period ended February 28, 2015, \$15 (2014 – \$19) was recorded as share-based compensation expense for the stock option plan. The fair value of options granted was estimated at the grant date using the Black-Scholes model and the following weighted average assumptions:

|                         | As at<br>November 30,<br>2014 |
|-------------------------|-------------------------------|
| Risk-free interest rate | 2.58%                         |
| Expected volatility     | 87.80%                        |
| Average option life     | 7.5 years                     |
| Expected dividends      | Nil                           |
| Grant-date share price  | \$0.50                        |
| Option exercise price   | \$0.50                        |

The risk-free interest rate is based on the implied yield on a Canadian government zero-coupon issue, with a remaining term equal to the expected term of the option. The volatility is based solely on historical volatility equal to the expected life of the option. The life of the options is estimated taking into consideration the vesting period at the grant date, the life of the option and the average length of time similar grants have remained outstanding in the past. The dividend yield was excluded from the calculation since it is the present policy of the Company to retain all earnings to finance operations and future growth.

# Theratechnologies Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited) Erreur ! Insertion automatique non définie. February 28, 2015 and 2014

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

The following table summarizes the weighted average fair value of stock options granted during the three-month periods ended:

|                              | <b>February 28, 2014</b>   |
|------------------------------|--|
|                              | <b>Weighted<br/>average<br/>grant-date<br/>fair value<br/>\$</b> |
| <b>Number<br/>of options</b> |  |
| 125,000                      | 0.36   |

The Black-Scholes model used by the Company to calculate option values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires four highly subjective assumptions, including future stock price volatility and average option life, which greatly affect the calculated values.

b) Loss per share

For the three-month period ended February 28, 2015, the calculation of basic loss per share was based on the net loss attributable to common shareholders of the Company of \$914 (February 28, 2014 – \$3,534), and a weighted average number of common shares outstanding of 61,010,603 (February 28, 2014 – 61,010,603), calculated as follows:

|  | <b>For the three-month periods<br/>ended February 28,</b> |             |
|--|---|-------------|
|  | <b>2015</b>   | <b>2014</b> |
| Issued common shares as at December 1    | 61,010,603  | 61,010,603  |
| Effect of share options exercised        | -   | -           |
| Weighted average number of common shares | 61,010,603  | 61,010,603  |

As at February 28, 2015, 1,842,669 options were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. All options outstanding as at February 28, 2014 could potentially dilute basic loss per share in the future.

# Theratechnologies Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited) Erreur ! Insertion automatique non définie. February 28, 2015 and 2014

---

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

### 10 Commitments

Under the terms of a consulting agreement, the Company agreed to pay confidential royalties based on all up-front payments, milestone cash payments and cash proceeds received by the Company from the commercial sale of a product for each licence the Company enters into during the term of the agreement with a third party introduced by the consultant. AOP (note 4) has been introduced by the consultant.

### 11 Other information

The Company entered into the following transactions which had no impact on the cash flows:

|   | February 28,<br>2015<br>\$ | November 30,<br>2014<br>\$ |
|---|----------------------------|----------------------------|
| Additions to intangible assets included in accounts payable and accrued liabilities | -                          | 15,235                     |

### 12 Determination of fair values

Certain of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### Financial assets and financial liabilities measured at fair value

In establishing fair value, the Company uses a fair value hierarchy based on levels as defined below:

Level 1: Defined as observable inputs such as quoted prices in active markets.

Level 2: Defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3: Defined as inputs that are based on little or no observable market data, therefore requiring entities to develop their own assumptions.

# **Theratechnologies Inc.**

## Notes to Interim Consolidated Financial Statements

(Unaudited) Erreur ! Insertion automatique non définie. February 28, 2015 and 2014

---

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

### **Other financial assets and financial liabilities**

The Company has determined that the carrying values of its short-term financial assets and financial liabilities, including cash, trade and other receivables and accounts payable and accrued liabilities, approximate their fair value because of the relatively short period to maturity of the instruments.

Bonds and derivative financial assets and liabilities are stated at estimated fair value, determined by inputs that are primarily based on broker quotes at the reporting date (Level 2).

### **Share-based payment transactions**

The fair value of the employee stock options is measured based on the Black-Scholes valuation model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions, if any, are not taken into account in determining fair value.