Consolidated Financial Statements of

THERATECHNOLOGIES INC.

Years ended November 30, 2012, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Theratechnologies Inc.

We have audited the accompanying consolidated financial statements of Theratechnologies Inc., which comprise the consolidated statements of financial position as at November 30, 2012 and November 30, 2011, the consolidated statements of comprehensive (loss) income, changes in equity and cash flows for each of the years in the three-year period ended November 30, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Theratechnologies Inc. as at November 30, 2012 and November 30, 2011, and its consolidated financial performance and its consolidated cash flows for each of the years in the three-year period ended November 30, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP *

February 26, 2013

Montréal, Canada

*CPA auditor, CA, public accountancy permit No. A111162

THERATECHNOLOGIES INC.

Consolidated Financial Statements

Years ended November 30, 2012, 2011 and 2010

Financial Statements

THERATECHNOLOGIES INC.

Consolidated Statements of Financial Position

As at November 30, 2012 and 2011
(in thousands of Canadian dollars)

	Note	November 30, 2012	November 30, 2011
		$	$
Assets			
Current assets			
Cash		1,512	2,559
Bonds	9	149	752
Trade and other receivables	10	1,168	1,784
Tax credits and grants receivable	11	421	346
Inventories	12	12,789	10,332
Prepaid expenses		970	2,308
Derivative financial assets	16(ii)	79	347
Total current assets		17,088	18,428
Non-current assets			
Bonds	9	18,842	33,476
Property and equipment	13	402	969
Total non-current assets		19,244	34,445
Total assets		36,332	52,873
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	14	3,339	7,129
Provisions	20(b)	1,211	52
Derivative financial liabilities	21(c)	-	16
Current portion of deferred revenue	5	1,854	4,279
Total current liabilities		6,404	11,476
Non-current liabilities			
Provisions	20(b)	4,415	-
Other liabilities	15	216	775
Deferred revenue	5	2,627	4,279
Total non-current liabilities		7,258	5,054
Total liabilities		13,662	16,530
Equity			
Share capital	16	280,872	280,488
Contributed surplus		8,158	8,242
Deficit		(266,786)	(252,846)
Accumulated other comprehensive income		426	459
Total equity		22,670	36,343
Contingent liability	19		
Commitments	24		
Subsequent events	27		
Total liabilities and equity		36,332	52,873

See accompanying notes to consolidated financial statements.

On behalf of the Board,

(signed) Paul Pommier
Director

(signed) Jean-Denis Talon
Director

THERATECHNOLOGIES INC.

Consolidated Statements of Comprehensive (Loss) Income

Years ended November 30, 2012, 2011 and 2010
(in thousands of Canadian dollars, except per share amounts)

	Note	November 30, 2012	November 30, 2011	November 30, 2010
		$	$	$
Revenue				
Sale of goods	5	5,235	8,351	-
Research services:				
Milestone payment	5	-	-	25,000
Upfront payments and initial technology access fees	5	4,077	5,134	6,846
Royalties and license fees	5	4,255	1,443	22
Total revenue		13,567	14,928	31,868
Cost of sales	7	5,056	9,146	469
Research and development expenses, net of tax credits of $692 (2011 – $957; 2010 – $934)	11	6,341	10,992	14,064
Selling and market development expenses		852	2,019	2,670
General and administrative expenses		5,462	10,823	8,002
Restructuring costs	20	10,702	716	-
Total operating expenses		28,413	33,696	25,205
Results from operating activities		(14,846)	(18,768)	6,663
Finance income	8	890	1,602	1,888
Finance costs	8	21	(636)	493
Total net finance income		911	966	2,381
(Loss) profit before income taxes		(13,935)	(17,802)	9,044
Income tax (expense) recovery	17	(5)	72	(114)
Net (loss) profit		(13,940)	(17,730)	8,930
Other comprehensive (loss) income, net of tax				
Net change in fair value of available-for-sale financial assets, net of tax		100	121	(390)
Net change in fair value of available-for-sale financial assets transferred to net (loss) profit, net of tax		(133)	(228)	(326)
		(33)	(107)	(716)
Total comprehensive (loss) income for the year		(13,973)	(17,837)	8,214
Basic and diluted (loss) earnings per share	16(vi)	(0.23)	(0.29)	0.15

See accompanying notes to consolidated financial statements.

THERATECHNOLOGIES INC.

Consolidated Statements of Changes in Equity

Years ended November 30, 2012, 2011 and 2010
(in thousands of Canadian dollars)

	Note	Share capital		Contributed surplus	Unrealized gains (losses) on available-for-sale financial assets *	Deficit	Total
		Number	Amount				
			$	$	$	$	$
Balance as at November 30, 2009		60,429,393	279,169	6,757	1,282	(244,160)	43,048
Total comprehensive income (loss) for the year							
Net profit		-	-	-	-	8,930	8,930
Other comprehensive income (loss):							
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	(390)	-	(390)
Net change in fair value of available-for-sale financial assets transferred to net loss, net of tax		-	-	-	(326)	-	(326)
Total comprehensive income (loss) for the year		-	-	-	(716)	8,930	8,214
Transactions with owners, recorded directly in equity							
Issue of common shares	16(i)	2,880	15	-	-	-	15
Income tax related to share issue costs		-	-	-	-	114	114
Share-based compensation plan:							
Share-based compensation for stock option plan	16(v)	-	-	1,133	-	-	1,133
Exercise of stock options:							
Monetary consideration		80,491	132	-	-	-	132
Attributed value		-	82	(82)	-	-	-
Total contributions by owners		83,371	229	1,051	-	114	1,394
Balance as at November 30, 2010		60,512,764	279,398	7,808	566	(235,116)	52,656

* Accumulated other comprehensive income.

See accompanying notes to consolidated financial statements.

THERATECHNOLOGIES INC.

Consolidated Statements of Changes in Equity (continued)

Years ended November 30, 2012, 2011 and 2010
(in thousands of Canadian dollars)

	Note	Share capital Number	Share capital Amount	Contributed surplus	Unrealized gains (losses) on available-for-sale financial assets *	Deficit	Total
			$	$	$	$	$
Balance as at November 30, 2010		60,512,764	279,398	7,808	566	(235,116)	52,656
Total comprehensive loss for the year							
Net loss		-	-	-	-	(17,730)	(17,730)
Other comprehensive income (loss):							
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	121	-	121
Net change in fair value of available-for-sale financial assets transferred to net loss, net of tax		-	-	-	(228)	-	(228)
Total comprehensive loss for the year		-	-	-	(107)	(17,730)	(17,837)
Transactions with owners, recorded directly in equity							
Issue of common shares	16(i)	7,837	34	-	-	-	34
Share-based compensation plan:							
Share-based compensation for stock option plan	16(v)	-	-	822	-	-	822
Exercise of stock options:							
Monetary consideration	16(v)	344,665	668	-	-	-	668
Attributed value	16(v)	-	388	(388)	-	-	-
Total contributions by owners		352,502	1,090	434	-	-	1,524
Balance as at November 30, 2011		60,865,266	280,488	8,242	459	(252,846)	36,343
Total comprehensive loss for the year							
Net loss		-	-	-	-	(13,940)	(13,940)
Other comprehensive income (loss):							
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	100	-	100
Net change in fair value of available-for-sale financial assets transferred to net earnings (loss), net of tax		-	-	-	(133)	-	(133)
Total comprehensive loss for the year		-	-	-	(33)	(13,940)	(13,973)
Transactions with owners, recorded directly in equity							
Share-based compensation plan:							
Share-based compensation for stock option plan	16(v)	-	-	57	-	-	57
Exercise of stock options:							
Monetary consideration	16(v)	145,337	243	-	-	-	243
Attributed value	16(v)	-	141	(141)	-	-	-
Total contributions by owners		145,337	384	(84)	-	-	300
Balance as at November 30, 2012		61,010,603	280,872	8,158	426	(266,786)	22,670

* Accumulated other comprehensive income.

See accompanying notes to consolidated financial statements.

THERATECHNOLOGIES INC.

Consolidated Statements of Cash Flows

Years ended November 30, 2012, 2011 and 2010
(in thousands of Canadian dollars)

	Note	November 30, 2012	November 30, 2011	November 30, 2010
		$	$	$
Operating activities				
Net (loss) profit		(13,940)	(17,730)	8,930
Adjustments for:				
Depreciation of property and equipment	13	564	332	466
Change in deferred revenue		(4,077)	(5,135)	(6,845)
Share-based compensation for stock option plan	16(v)	57	822	1,133
Income tax expense (recovery)		5	(72)	114
Writedown of inventories	12	407	400	192
Lease inducements and amortization	15 and 18	(559)	450	325
Change in fair value of derivative financial assets	16(ii)	558	490	-
Change in fair value of liability related to deferred stock unit plan	16(ii)	(556)	(455)	-
Change in fair value of derivative financial liabilities		(16)	16	-
Interest income		(757)	(1,374)	(1,562)
Interest received		1,253	1,515	2,290
Operating activities before changes in operating assets and liabilities		(17,061)	(20,741)	5,043
Change in trade and other receivables		616	(1,623)	214
Change in tax credits and grants receivable		(75)	(14)	1,001
Change in inventories		(2,864)	(6,415)	(2,284)
Change in prepaid expenses		1,338	(1,077)	(601)
Change in accounts payable and accrued liabilities		(3,162)	2,600	(473)
Change in provisions		5,574	52	-
		1,427	(6,477)	(2,143)
Cash flows from (used in) operating activities		(15,634)	(27,218)	2,900
Financing activities				
Proceeds from issue of share capital		-	34	15
Proceeds from exercise of stock options	16(v)	243	668	132
Cash flows from financing activities		243	702	147
Investing activities				
Acquisition of property and equipment	13	(69)	(234)	(415)
Proceeds from sale of bonds		14,703	31,141	22,498
Acquisition of bonds		-	(27,644)	-
Prepayment of derivative financial assets		(290)	(837)	-
Cash flows from investing activities		14,344	2,426	22,083
Net change in cash		(1,047)	(24,090)	25,130
Cash as at December 1		2,559	26,649	1,519
Cash as at November 30		1,512	2,559	26,649

See note 20 for other information.

See accompanying notes to consolidated financial statements.

1. Reporting entity

Theratechnologies Inc. is a biopharmaceutical company that specializes in innovative therapeutic peptide products, with an emphasis on growth-hormone releasing factor, or GRF, peptides.

The 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 2310 Alfred-Nobel Boulevard, Montréal, Quebec H4S 2B4.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on February 26, 2013.

(b) Basis of measurement

The Company's consolidated financial statements have been prepared on going concern and historical cost bases, 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.

The methods used to measure fair value are discussed further in note 23.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the Company's 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.

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

Information about critical judgements in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements is noted below.

Judgements in applying accounting policies

- Revenue and deferred revenue

  Revenue recognition is subject to critical judgements, particularly in collaboration agreements that include multiple deliverables, as judgement 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 judgement 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 (Note 5 for additional information).

Estimation uncertainties

- Stock option plan

  There is estimation uncertainty with respect to selecting inputs to the Black-Scholes model used to determine the fair value of the stock options (Note 16(v) for additional information).

- Income taxes

  In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. The generation of future taxable income is dependent on the successful commercialization of the Company's products and technologies (Note 17 for additional information).

- Contingent liability

  Management uses judgement in assessing the possibility of any outflow in settlement of contingent liabilities (Note 19 for additional information).

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

- 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 (Note 20(b) for additional information).

Other areas of judgement 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 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.

3. Significant accounting policies

The accounting policies have been applied consistently by the subsidiaries of the Company.

(a) Basis of consolidation

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Subsidiaries are entities controlled by the Company. Control is present where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are exercisable currently are taken into consideration. The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Company.

Reciprocal balances and transactions, revenues and expenses resulting from transactions between subsidiaries and with the Company are eliminated in preparing the consolidated financial statements.

3. Significant accounting policies (continued)

(b) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiaries at exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate in effect at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate in effect at the end of the reporting period.

Foreign currency differences arising on translation are recognized in net profit (loss), except for differences arising on the translation of available-for-sale equity instruments, which are recognized in other comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate in effect at the date on which the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate in effect at the date of the transaction.

(c) Revenue recognition

Collaboration agreements that include multiple deliverables are considered to be multi-element arrangements. Under this type of arrangement, the identification of separate units of accounting is required and revenue is allocated among the separate units based on their relative fair values.

Payments received under a collaboration agreement may include upfront payments, milestone payments, research services, royalties and license fees, and payments for sale of goods. Revenues for each unit of accounting are recorded as described below.

(i) Sale of goods

Revenues from the sale of goods are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(ii) Royalties and license fees

Royalties and license fees are recognized when conditions and events under the license agreement have occurred, the Company can make a reasonable estimate of the amount earned and collectibility is reasonably assured.

3. Significant accounting policies (continued)

(c) Revenue recognition (continued)

(iii) Research services

Revenues from research contracts are recognized when services to be provided are rendered and all conditions under the terms of the underlying agreement are met.

(a) Upfront payments and initial technology access fees

Upfront payments and initial technology access fees are deferred and recognized as revenue on a systematic basis over the period during which the related products or services are delivered and all obligations are performed.

(b) Milestone payments

Revenues subject to the achievement of milestones are recognized only when the specified events have occurred and collectibility is reasonably assured.

(d) Cost of sales

Cost of sales represents the cost of goods sold and includes the cost of raw materials, supplies, direct labour, direct overhead charges, unallocated indirect costs related to production as well as writedown of inventories.

(e) Employee benefits

Salaries and short-term employee benefits

Salaries and short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term profit-sharing or cash bonus plans if the Company has a legal or constructive obligation to pay an amount as a result of past services rendered by an employee and the obligation can be estimated reliably.

Post-employment benefits

Post-employment benefits include a defined contribution plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense when due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. The Company's defined contribution plan comprises the registered retirement savings plan, the Quebec Pension Plan and unemployment insurance.

3. Significant accounting policies (continued)

(e) Employee benefits (continued)

Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(f) Finance income and finance costs

Finance income comprises interest income on available-for-sale financial assets and gains (losses) on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in net (loss) profit using the effective interest method.

Finance costs are comprised of bank charges, impairment losses on financial assets recognized in net (loss) profit, changes in fair value of liabilities and derivatives and of foreign currency gains and losses which are reported on a net basis.

(g) Inventories

Inventories are presented at the lower of cost, determined using the first-in, first-out method, and net realizable value. Inventory costs include the purchase price and other costs directly related to the acquisition of materials, and other costs incurred in bringing the inventories to their present location and condition. The Company is responsible for coordinating the production and stability testing and for auditing suppliers at different times during the manufacturing process. Inventory costs also include the costs directly related to the conversion of materials to finished goods. Net realizable value is the estimated selling price in the Company's ordinary course of business, less the estimated costs of completion and selling expenses.

Work in progress inventory appears from the moment third-party suppliers use the material provided by the Company until the time the Company receives the finished product. The value of the work in progress is equal to the value of material provided by the Company plus all other work performed by third-party suppliers which has been invoiced to the Company.

(h) Derivative financial instruments

Derivative financial instruments are recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. The changes in the fair value of derivatives are recognized through profit or loss in the period in which they occur.

3. Significant accounting policies (continued)

(i) Property and equipment

Recognition and measurement

Items of property and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and the costs of dismantling and removing the item and restoring the site on which it is located, if any.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in net (loss) profit.

Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in net (loss) profit as incurred.

Depreciation

The estimated useful lives and the methods of depreciation for the current and comparative periods are as follows:

Asset	Method	Rate/Period
Computer equipment	Declining balance	50%
Laboratory equipment	Declining balance	20%
	and straight-line	5 years
Office furniture and equipment	Declining balance	20%
Leasehold improvements	Straight-line	Lower of lease term and economic life

This most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Estimates for depreciation methods, useful lives and residual values are reviewed at each year-end and adjusted if appropriate.

3. Significant accounting policies (continued)

(j) Intangible assets

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. A development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria are usually met when a regulatory filing has been made in a major market and approval is considered highly probable. The expenditure capitalized includes the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are expensed as incurred. Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

During the years ended November 30, 2012, 2011 and 2010, no development expenditures were capitalized.

(k) Financial instruments

The Company's financial instruments are classified into one of three categories: loans and receivables, available-for-sale financial assets and other financial liabilities. Loans and receivables and other financial liabilities are measured at amortized cost.

The Company has classified its bonds as available-for-sale financial assets. The Company has presented its bonds with a maturity of less than twelve months as current assets. The Company has classified cash and trade and other receivables as loans and receivables and accounts payable and accrued liabilities as other financial liabilities.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive (loss) income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit (loss).

(l) Leases

Operating lease payments are recognized in net (loss) profit on a straight-line basis over the term of the lease.

3. Significant accounting policies (continued)

(l) Leases (continued)

Lease inducements arising from leasehold improvement allowances and rent-free periods form an integral part of the total lease cost and are deferred and recognized in net (loss) profit over the term of the lease on a straight-line basis.

(m) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each consolidated financial statement reporting date to determine whether there is objective evidence that it is impaired. The Company considers that a financial asset is impaired if objective evidence indicates that one or more loss events had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed on an individual basis for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in net (loss) profit.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net (loss) profit and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net (loss) profit.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains (losses) on available-for-sale financial assets in equity, to net (loss) profit. The cumulative loss that is removed from other comprehensive income and recognized in net (loss) profit is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in net (loss) profit. Changes in impairment provisions attributable to time value are reflected as a separate component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in net (loss) profit, then the impairment loss is reversed, with the amount of the reversal recognized in net (loss) profit. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

3. Significant accounting policies (continued)

(m) Impairment (continued)

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets ("cash-generating unit"). Impairment losses recognized in prior periods are determined at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An asset's carrying amount, increased through reversal of an impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(n) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are assessed by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount on provisions is recognized in finance costs.

Restructuring

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

3. Significant accounting policies (continued)

(n) Provisions (continued)

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract. There were no onerous contracts as at November 30, 2012 and 2011 other than the onerous lease contract provided for as restructuring cost (see note 20).

Site restoration

Where there is a legal or constructive obligation to restore leased premises to good condition, except for normal aging on expiry or early termination of the lease, the resulting costs are provisioned up to the discounted value of estimated future costs and increase the carrying amount of the corresponding item of property and equipment. The Company amortizes the cost of restoring leased premises and recognizes an unwinding of discount expense on the liability related to the term of the lease.

Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or a present obligation that arises from past events (and therefore exists) but is not recognized because it is not probable that a transfer or use of assets, provision of services or any other transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be estimated reliably.

(o) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net (loss) profit except to the extent that they relate to items recognized directly in other comprehensive income or in equity.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3. Significant accounting policies (continued)

(o) Income taxes (continued)

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax liability is generally recognized for all taxable temporary differences.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Share-based compensation

(i) Stock option plan

The Company records share-based compensation related to employee stock options granted using the fair value based method estimated using the Black-Scholes model. Under this method, compensation cost is measured at fair value at the date of grant and expensed, as employee benefits, over the period in which employees unconditionally become entitled to the award. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date.

Share-based payment arrangements in which the Company receives services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

(ii) Deferred stock unit plan

The deferred stock units ("DSUs") are totally vested at the grant date. In the case of the DSUs granted to officers for annual bonuses, a DSU liability is recorded at the grant date in place of the liability for the bonus payments. In the case of the directors, the expense related to DSUs and their liabilities are recognized at the grant date. The liability is adjusted periodically to reflect any change in market value of common shares.

3. Significant accounting policies (continued)

(q) Government grants

Government grants consisting of grants and investment tax credits are recorded as a reduction of the related expense or cost of the asset acquired. Government grants are recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable assurance that the grant will be received.

(r) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(s) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held, if applicable. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held if applicable, for the effects of all dilutive potential common shares, which consist of the stock options granted to employees.

4. Recent changes in accounting standards

(a) Amendments to existing standards that were adopted in 2012

Annual improvements to IFRS

The IASB's improvements to IFRS contain amendments that were applicable for the annual period beginning on December 1, 2011, as follows:

(i) IFRS 7, *Financial Instruments: Disclosures*

Multiple clarifications relate to the disclosure of financial instruments and in particular regarding transfers of financial assets.

4. Recent changes in accounting standards (continued)

(a) Amendments to existing standards that were adopted in 2012 (continued)

Annual improvements to IFRS (continued)

(ii) IAS 1, *Presentation of Financial Statements*

Entities may present the analysis of the components of other comprehensive income either in the statement of changes in equity or within the notes to financial statements.

(iii) IAS 24, *Related Party Disclosures*

There are limited differences in the definition of what constitutes a related party; however, the amendment requires more detailed disclosures regarding commitments.

(b) New or revised standards and interpretations issued but not yet adopted

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

(i) 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)).

IFRS 9 (2009) replaces the guidance in IAS 39 *Financial Instruments*: *Recognition and Measurement*, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- Financial assets measured at amortized cost; or
- Financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities, and this guidance is consistent with the guidance in IAS 39 except as described below.

4. Recent changes in accounting standards (continued)

(b) New or revised standards and interpretations issued but not yet adopted (continued)

(i) IFRS 9, *Financial Instruments* (continued)

Under IFRS 9 (2010), for financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in OCI, with the remainder of the change recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on December 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

(ii) IFRS 10 *Consolidated Financial Statements*

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, 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 financial statements for the annual period beginning on December 1, 2013. The extent of the impact of adoption of IFRS 10 has not yet been determined.

(iii) IFRS 13, *Fair Value Measurement*

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, 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.

4. Recent changes in accounting standards (continued)

(b) New or revised standards and interpretations issued but not yet adopted (continued)

(iii) IFRS 13, *Fair Value Measurement* (continued)

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs 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.

IFRS 13 explains “how” to measure fair value when it is required or permitted by other IFRSs. IFRS 13 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 financial statements for the annual period beginning on December 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

(iv) 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. Early adoption is permitted.

The amendments require that an entity present 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 other comprehensive income in two statements has remained unchanged.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on December 1, 2012. As the amendments only require changes in the presentation of items in other comprehensive income, the Company does not expect the amendments to IAS 1 to have a material impact on the financial statements.

4. Recent changes in accounting standards (continued)

(b) New or revised standards and interpretations issued but not yet adopted (continued)

(v) Amendments to IAS 19 *Employee Benefits*

In June 2011, the IASB published an amended version of IAS 19 *Employee Benefits*. 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*, and when the entity can no longer withdraw the offer of the termination benefits.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on December 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

5. Revenue and deferred revenue

(a) EMD Serono, Inc.

On October 28, 2008, the Company entered into a collaboration and licensing agreement, amended in April 2012, with EMD Serono, Inc. ("EMD Serono"), an affiliate of Merck KGaA, of Darmstadt, Germany, regarding the exclusive commercialization rights of tesamorelin in the United States for the treatment of excess abdominal fat in HIV-infected patients with lipodystrophy (the "Initial Product").

Under the terms of the agreement, the Company is responsible for the development of the Initial Product up to obtaining marketing approval in the United States, which was obtained on November 10, 2010. The Company is also responsible for product production and for developing a new formulation of the Initial Product. EMD Serono is responsible for conducting product commercialization activities.

At the closing of the agreement on December 15, 2008, the Company received US$30,000 (CA$36,951), which includes an initial payment of US$22,000 (CA$27,097) and US$8,000 (CA$9,854) as a subscription for common shares in the Company by Merck KGaA at a price of US$3.67 (CA$4.52) per share. The Company may receive up to US$215,000, which amount includes the initial payment of US$22,000, the equity investment of US$8,000, as well as payments based on the achievement of certain development, regulatory and sales milestones. The Company will also be entitled to receive increasing royalties on annual net sales of tesamorelin in the United States, if applicable.

Royalty revenue is almost entirely derived from the sales of *EGRIFTA*™ by EMD Serono. Royalties are paid to the Company by EMD Serono quarterly in arrears based on the calendar year.

5. Revenue and deferred revenue (continued)

(a) EMD Serono, Inc. (continued)

For the years ended November 30, 2012, 2011 and 2010, substantially all revenue recognized as sale of goods was in relation to sales of *EGRIFTA*™ to EMD Serono.

The initial payment of $27,097 has been deferred and is being amortized on a straight-line basis over the estimated period for developing a new formulation of the Initial Product. This period may be modified in the future based on additional information that may be received by the Company. For the year ended November 30, 2012, an amount of $4,077 (2011 – $5,134; 2010 – $6,846) was recognized as revenue. The change in the amortization amount over the three years reflects adjustments made in 2011 and 2012 to extend the service period to May 1, 2015. As at November 30, 2012, the deferred revenue related to this transaction amounted to $4,481 (2011 – $8,558).

On November 10, 2010, the FDA approved *EGRIFTA*™ (tesamorelin for injection) as the first and only indicated treatment for excess abdominal fat in HIV-infected patients with lipodystrophy (abdominal lypohypertrophy). Under this agreement, FDA homologation is associated with a milestone payment totalling US$25,000 (CA$25,000).

The Company may conduct research and development activities for additional indications. Under the collaboration and licensing agreement, EMD Serono has the option to commercialize additional indications for tesamorelin in the United States. If it exercises this option, EMD Serono will pay half of the development costs related to such additional indications. In such cases, the Company will also have the right, subject to an agreement with EMD Serono, to participate in promoting these additional indications.

(b) sanofi-aventis

On December 6, 2010, the Company announced the signing of a distribution and licensing agreement with sanofi-aventis ("Sanofi"), covering the commercial rights for *EGRIFTA*™ in Latin America, Africa and the Middle East for the treatment of excess abdominal fat in HIV-infected patients with lipodystrophy.

Under the terms of the agreement, the Company will sell *EGRIFTA*™ to Sanofi at a transfer price equal to the higher of a percentage of Sanofi's net selling price and a predetermined floor price. The Company has retained all future development rights to *EGRIFTA*™ and will be responsible for conducting research and development for any additional clinical programs. Sanofi will be responsible for conducting all regulatory activities for *EGRIFTA*™ in the aforementioned territories, including applications for approval in the different countries for the treatment of excess abdominal fat in HIV-infected patients with lipodystrophy. The Company also granted Sanofi an option to commercialize tesamorelin for other indications in the territories mentioned above. If such option is not exercised, or is declined, by Sanofi, the Company may commercialize tesamorelin for such indications on its own or with a third party.

5. Revenue and deferred revenue (continued)

(c) Ferrer Internacional S.A.

On February 3, 2011, the Company entered into a distribution and licensing agreement with Ferrer Internacional S.A. ("Ferrer") covering the commercial rights for *EGRIFTA*™ for the treatment of excess abdominal fat in HIV-infected patients with lipodystrophy in Europe, Russia, South Korea, Taiwan, Thailand and certain central Asian countries.

Under the terms of the agreement, the Company will sell *EGRIFTA™* to Ferrer at a transfer price equal to the higher of a significant percentage of Ferrer's net selling price and a predetermined floor price. The Company has retained all development rights to *EGRIFTA*™ for other indications and will be responsible for conducting research and development for any additional programs. Ferrer will be responsible for conducting all regulatory and commercialization activities in connection with *EGRIFTA*™ for the treatment of excess abdominal fat in HIV-infected patients with lipodystrophy in the territories mentioned above. The Company will be responsible for the manufacture and supply of *EGRIFTA*™ to Ferrer. The Company has the option to co-promote *EGRIFTA*™ for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy in the territories. Ferrer has the option to enter into a co-development and commercialization agreement using tesamorelin relating to any such new indications. The terms and conditions of such a co-development and commercialization agreement will be negotiated based on any additional program chosen for development.

(d) Actelion Pharmaceuticals Inc.

On February 20, 2012, the Company entered into a supply, distribution and licensing agreement granting Actelion Pharmaceuticals Inc. (“Actelion”) the exclusive commercialization rights to *EGRIFTA*™ for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy in Canada.

Under the terms of the agreement, the Company will sell *EGRIFTA*™ to Actelion at a transfer price equal to the higher of a percentage of Actelion’s net selling price and a predetermined floor price. Actelion will be responsible for conducting all regulatory and commercialization activities for *EGRIFTA*™ for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy in Canada subject to the agreement. The Company will be responsible for the manufacture and supply of *EGRIFTA*™ to Actelion. The Company has retained all development rights to *EGRIFTA*™ for other indications and will be responsible for conducting development activities for any additional potential indications. The Company also granted Actelion an option to commercialize tesamorelin for other indications in Canada. If such option is not exercised, or is declined, by Actelion, we may commercialize tesamorelin for such indications on our own or with a third party. The initial term of the agreement extends until the later of (i) the expiration of the last valid claim based on a patent right (including patent applications) controlled by us in Canada covering *EGRIFTA*™ or any other product based on an additional indication for tesamorelin that Actelion has elected to commercialize under the Actelion agreement and (ii) 10 years from the date of the first commercial sale of *EGRIFTA*™.

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

6. Personnel expenses

	Note	November 30, 2012	November 30, 2011	November 30, 2010
		$	$	$
Salaries and short-term employee benefits		5,008	10,865	11,577
Post-employment benefits		306	551	579
Termination benefits		3,252	620	20
Share-based compensation	16(ii) and (v)	307	1,161	1,133
Total personnel expenses		8,873	13,197	13,309

Share-based compensation does not include $43 (2011 – $155; 2010 – nil) of compensation to non-employee directors.

7. Cost of sales

	Note	November 30, 2012	November 30, 2011	November 30, 2010
		$	$	$
Cost of goods sold		4,711	8,040	-
Other costs		313	423	277
Writedown of inventories	12	-	400	192
Production development costs		32	283	-
		5,056	9,146	469

8. Finance income and finance costs

Recognized in net (loss) profit:

	November 30, 2012	November 30, 2011	November 30, 2010
	$	$	$
Interest income	757	1,374	1,562
Net gain on disposal of available-for-sale financial assets	133	228	326
Finance income	890	1,602	1,888
Bank charges	(23)	(18)	(18)
Net foreign currency gain (loss)	81	(567)	511
Loss on financial instruments carried at fair value	(37)	(51)	-
Finance costs	21	(636)	493
Net finance income recognized in net (loss) profit	911	966	2,381

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

8. Finance income and finance costs (continued)

Recognized in other comprehensive income:

	November 30, 2012	November 30, 2011	November 30, 2010
	$	$	$
Net change in fair value of available-for-sale financial assets, net of tax	100	121	(390)
Net change in fair value of available-for-sale financial assets transferred to net (loss) profit, net of tax	(133)	(228)	(326)
Finance costs recognized in other comprehensive income, net of tax	(33)	(107)	(716)

9. Bonds

Bonds are interest-bearing available-for-sale financial assets with a carrying amount of $18,991 as at November 30, 2012 (2011 – $34,228), have stated interest rates of 2.30% to 4.85% (2011 – 2.30% to 5.45%) and have an average maturity of 2.87 years (2011 – 2.79 years).

The Company's exposure to credit and interest rate risks related to bonds is presented in note 21.

10. Trade and other receivables

	Note	November 30, 2012	November 30, 2011
		$	$
Trade receivables		1,045	1,364
Sales tax receivable		113	227
Loans granted to employees under share purchase plan	16(iv)	1	10
Other receivables		9	183
		1,168	1,784

The Company's exposure to credit and currency risks related to trade and other receivables is presented in note 21.

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

11. Tax credits and grants receivable

	November 30, 2012	November 30, 2011
	$	$
Balance at beginning of year	346	332
Investment tax credits and grants received	(617)	(943)
Investment tax credits and grants recognized in net (loss) profit	692	957
Balance at end of year	421	346

Tax credits and grants receivable comprise research and development investment tax credits receivable from the Quebec government which relate to qualifiable research and development expenditures under the applicable tax laws. The amounts recorded as receivable are subject to a government tax audit and the final amounts received may differ from those recorded. There are no unfulfilled conditions or contingencies associated with the government assistance received.

Unused and unrecorded federal tax credits may be used to reduce future income tax and expire as follows:

	$
2023	452
2024	1,597
2025	1,863
2026	2,180
2027	3,000
2028	3,329
2029	2,243
2030	1,111
2031	777
2032	358
	16,910

12. Inventories

	November 30, 2012	November 30, 2011
	$	$
Raw materials	11,113	5,751
Work in progress	336	1,096
Finished goods	1,340	3,485
	12,789	10,332

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

12. Inventories (continued)

In 2012, the Company recorded an inventory provision of $407 on raw materials (2011 – $42), nil on work in progress (2011 – nil) and nil on finished goods (2011 – $406) to write down their value to their estimated net realizable value, and a reversal of inventory writedown of nil on raw materials (2011 – $(48)), due to a decrease in the costs of conversion of raw materials into finished goods. The net inventory provision of $407 was recorded in restructuring costs in 2012 and the $400 in 2011 was recorded in cost of sales.

The writedown in 2012 was due to the restructuring of October 30, 2012 (note 20(b)).

The writedown of 2011 was due to pricing related to raw materials that were originally purchased under research and development conditions and not under the Company's current long-term procurement agreements.

13. Property and equipment

	Computer equipment	Laboratory equipment	Office furniture and equipment	Leasehold improvements	Total
	$	$	$	$	$
Cost					
Balance at November 30, 2010	941	2,018	1,129	1,900	5,988
Additions	203	19	11	8	241
Disposals	(278)	(81)	–	–	(359)
Balance at November 30, 2011	866	1,956	1,140	1,908	5,870
Additions	-	-	-	3	3
Disposals	(45)	-	-	-	(45)
Balance at November 30, 2012	821	1,956	1,140	1,911	5,828
Accumulated depreciation					
Balance at November 30, 2010	724	1,566	784	1,854	4,928
Depreciation for the year	147	112	70	3	332
Disposals	(278)	(81)	–	–	(359)
Balance at November 30, 2011	593	1,597	854	1,857	4,901
Depreciation for the year	171	228	145	20	564
Disposals	(39)	-	-	-	(39)
Balance at November 30, 2012	725	1,825	999	1,877	5,426
Net carrying amounts					
November 30, 2011	273	359	286	51	969
November 30, 2012	96	131	141	34	402

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

13. Property and equipment (continued)

Depreciation expense for the year has been recorded in the following accounts in the consolidated statement of comprehensive income:

	Note	November 30, 2012	November 30, 2011	November 30, 2010
		$	$	$
Cost of sales		19	44	8
Research and development expenses		113	146	231
Selling and market development expenses		6	6	10
General and administrative expenses		126	136	217
Restructuring costs	20	300	-	-
		564	332	466

14. Accounts payable and accrued liabilities

	Note	November 30, 2012	November 30, 2011
		$	$
Trade payables		1,474	3,429
Accrued liabilities and other payables		1,253	1,314
Salaries and benefits due to related parties	26	104	724
Employee salaries and benefits payable		440	1,332
Liability related to deferred stock unit plan	16(ii)	68	330
		3,339	7,129

The Company's exposure to currency and liquidity risks related to accounts payable and accrued liabilities is presented in note 21.

15. Other liabilities

Other liabilities consist of deferred lease inducements relating to rent-free periods amounting to $216 as at November 30, 2012 (November 30, 2011 – $775) (note 18).

16. Share capital

Authorized in unlimited number and without par value
Common shares
Preferred shares issuable in one or more series

All issued shares are fully paid, except for 300 (2011 – 3,700) issued under the share purchase plan and for which the loan has not been repaid in full (see note 16(iv)).

Common shareholders are entitled to receive dividends as declared by the Company at its discretion and are entitled to one vote per share at the Company's annual general meeting.

No preferred shares are outstanding.

(i) 2011

The Company received subscriptions in the amount of $34 for the issuance of 7,837 common shares in connection with its share purchase plan.

2010

The Company received subscriptions in the amount of $15 for the issuance of 2,880 common shares in connection with its share purchase plan.

All shares issued were for cash consideration.

(ii) Deferred stock unit plan

On December 10, 2010, the Board of Directors adopted a deferred stock unit plan (the "DSU Plan") for the benefit of its directors and officers (the "Beneficiaries"). The goal of the DSU Plan is to increase the Company's ability to attract and retain high-quality individuals to act as directors or officers and better align their interests with those of the shareholders of the Company in the creation of long-term value. Under the terms of the DSU Plan, Beneficiaries who are directors are entitled to elect to receive all or part of their annual retainer to act as directors and Chair of the Board in DSUs. Beneficiaries who act as officers are entitled to elect to receive all or part of their annual bonus, if any, in DSUs. The value of a DSU (the "DSUs Value") is equal to the average closing price of the common shares on the Toronto Stock Exchange on the date on which a Beneficiary determines that he desires to receive or redeem DSUs and during the four previous trading days. Effective February 7, 2012, Beneficiaries who act as directors must elect to receive DSUs before each calendar quarter, whereas Beneficiaries who act as officers must make that election within 48 hours after having been notified of their annual bonus. For the purposes of granting DSUs, the DSU Value for directors is determined on the first trading day of the beginning of a calendar quarter and the DSU Value for officers is determined on the second business day after they have been notified of their annual bonus.

16. Share capital (continued)

(ii) Deferred stock unit plan (continued)

DSUs may only be redeemed when a Beneficiary ceases to act as a director or an officer of the Company, except with respect to DSUs held by the former President and Chief Executive Officer. Under the terms of the employment agreement of the former President and Chief Executive Officer of the Company, DSUs may only be redeemed from the business day preceding the third anniversary date of their dates of grant but no later than the last day of the third calendar year following the calendar year during which the DSUs were granted. Upon redemption, the Company must provide a Beneficiary with an amount in cash equal to the DSU Value on the redemption date. Beneficiaries may not sell, transfer or otherwise assign their DSUs or any rights associated therewith other than by will or in accordance with legislation regarding the vesting and partition of successions.

The DSUs are totally vested at the grant date. In the case of the DSUs granted to officers for annual bonuses, a DSU liability is recorded at the grant date in place of the liability for the bonus payments. In the case of the directors, the expense related to DSUs and their liabilities are recognized at the grant date. During the year ended November 30, 2012, $293 (2011 – $494; 2010 – nil) was recorded as an expense and is included in general and administrative expenses. At the beginning of the year, amounts due to officers totalling nil (2011 – $300) were settled with the issuance of DSUs. The liability related to the DSUs is adjusted periodically to reflect any change in the market value of the common shares. As at November 30, 2012, a gain of $556 (2011 – $455; 2010 – nil) was recognized due to the change in the fair value of DSUs. This gain is included in gain (loss) on financial instruments carried at fair value. As at November 30, 2012, the Company had a total of 265,522 DSUs outstanding (November 30, 2011 – 143,655) and a liability related to the DSUs of $68 (2011 – liability of $330).

16. Share capital (continued)

(ii) Deferred stock unit plan (continued)

To protect against fluctuations in the value of the DSUs, the Company entered into two cash-settled forward stock contracts in 2011. The Company paid $837 as advance payments on the contracts. This amount corresponds to 146,875 common shares of the Company at a weighted average price of $5.70. The contracts initially expired in December 2011. On December 2, 2011, the two cash-settled forward stock contracts were amended to expire in December 2012. They were not designated as hedging instruments for accounting purposes. The Company entered into two other cash-settled forward stock contracts in 2012. The Company paid $290 as advance payment on the stock contracts. This amount corresponds to 118,647 common shares of the Company at a weighted average price of $2.44. Changes in fair value of these contracts are, therefore, included in gain (loss) on financial instruments carried at fair value in the period in which they occur. In connection with these forward stock contracts, the Company invested $1,127 in term deposits, as advance payments, with the same counterparty, such term deposits maturing at the same time as the cash-settled forward stock contracts. During the year ended November 30, 2012, a loss of $558 (2011 – $490; 2010 – nil) related to the change in the fair value of derivative financial assets was recognized. As at November 30, 2012, the fair value of cash-settled forward stock contracts was $79 (November 30, 2011 – $347) and is recorded in derivative financial assets.

16. Share capital (continued)

(iii) Shareholder rights plan

On February 10, 2010, the Company's Board of Directors adopted a shareholder rights plan (the "Plan") effective that date. The Plan is designed to provide adequate time for the Board and the shareholders to assess an unsolicited takeover bid for the Company. In addition, the Plan provides the Board with sufficient time to explore and develop alternatives for maximizing shareholder value if a takeover bid is made, as well as provide shareholders with an equal opportunity to participate in a takeover bid to receive full and fair value for their common shares. The Plan will expire at the close of the Company's annual meeting of shareholders in 2013.

The rights issued under the Plan will initially attach to and trade with the common shares and no separate certificates will be issued unless a triggering event occurs. The rights will become exercisable only when a person, including any party related to it, acquires or attempts to acquire 20% or more of the outstanding shares without complying with the "Permitted Bid" provisions of the Plan or without approval of the Board of Directors. Should such an acquisition occur or be announced, each right would, upon exercise, entitle a rights holder, other than the acquiring person and related persons, to purchase common shares at a 50% discount to the market price at the time.

Under the Plan, a Permitted Bid is a bid made to all holders of the common shares and which is open for acceptance for not less than 60 days. If at the end of 60 days at least 50% of the outstanding common shares, other than those owned by the offeror and certain related parties, has been tendered, the offeror may take up and pay for the common shares, but must extend the bid for a further 10 days to allow other shareholders to tender.

(iv) Share purchase plan

The share purchase plan entitles full-time and part-time employees of the Company who, on the participation date, are residents of Canada, are not under a probationary period and do not hold, directly or indirectly, 5% or more of the Company's outstanding common shares, to directly subscribe for common shares of the Company. Under the share purchase plan, a maximum of 550,000 common shares may be issued to employees. The offering period of the share purchase plan is between March 26, 2009 and March 31, 2012.

On May 1 and November 1 of each year (the "Participation Dates"), an employee may subscribe for a number of common shares under the share purchase plan for an amount that does not exceed 10% of that employee's gross annual salary for that year. Under the share purchase plan, the Board of Directors has the authority to suspend or defer a subscription of common shares or to decide that no subscription of common shares will be allowed on a Participation Date if it is in the Company's best interest.

16. Share capital (continued)

(iv) Share purchase plan (continued)

The share purchase plan provides that the number of common shares that may be issued to insiders at any time under all share-based compensation arrangements of the Company cannot exceed 10% of the Company's outstanding common shares, and the number of common shares issued to insiders within any one-year period under all security-based compensation arrangements cannot exceed 10% of the outstanding common shares.

The subscription price for each new common share subscribed for under the share purchase plan is equal to the weighted average closing price of the common shares on the Toronto Stock Exchange during a period of five days prior to the Participation Date. Employees may not assign the rights granted under the share purchase plan.

An employee may elect to pay the subscription price for common shares in cash or through an interest-free loan from the Company. Loans granted by the Company under the share purchase plan are repayable through salary withholdings over a period not exceeding two years. All loans may be repaid prior to the scheduled repayment at any time. The loans granted to any employee may at no time exceed 10% of that employee's current annual gross salary. All common shares purchased through an interest-free loan are hypothecated to secure full and final repayment of the loan and are held by a trustee until repayment in full. Loans are immediately due and payable on the occurrence of any of the following events: (i) termination of employment; (ii) sale or seizure of the hypothecated common shares; (iii) bankruptcy or insolvency of the employee; or (iv) suspension of the payment of an employee's salary or revocation of the employee's right to salary withholdings.

As at November 30, 2012, $1 (November 30, 2011 – $10) was receivable under these loans (note 10).

(v) Stock option plan

The Company has established a stock option plan under which it can 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 10 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 November 30, 2012, 1,913,843 options could still be granted by the Company (2011 – 1,156,008).

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

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

16. Share capital (continued)

(v) Stock option plan (continued)

Changes in the number of options outstanding during the past two years were as follows:

	Number of options	Weighted average exercise price per option
		$
Options at November 30, 2010	2,849,138	5.12
Granted	250,000	5.65
Expired	(309,000)	11.17
Forfeited	(116,003)	4.46
Exercised (weighted average share price: $4.81)	(344,665)	1.94
Options at November 30, 2011	2,329,470	4.87
Granted	-	-
Expired	(255,000)	8.58
Forfeited	(502,835)	5.42
Exercised (weighted average share price: $2.44)	(145,337)	1.67
Options at November 30, 2012	1,426,298	4.34
Exercisable at November 30, 2012	1,172,949	4.11

The following table provides stock option information as at November 30, 2012:

			Options outstanding
Price range	Number of options outstanding	Weighted average remaining life (years)	Weighted average exercise price
$			$
1.20 – 1.80	342,339	5.38	1.70
1.81 – 2.00	285,834	3.63	1.89
2.01 – 2.75	3,125	2.18	2.05
2.76 – 3.75	35,000	1.21	3.67
3.76 – 4.60	150,000	7.02	3.84
4.61 – 6.00	325,000	7.57	5.47
6.01 – 9.00	200,000	4.26	8.27
9.01 – 11.65	85,000	4.66	10.96
	1,426,298	5.39	4.34

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

16. Share capital (continued)

(v) Stock option plan (continued)

During the year ended November 30, 2012, $57 (2011 – $822; 2010 –$1,133) was recorded as share-based compensation expense for the stock option plan. The fair value of options granted in 2011 was estimated at the grant date using the Black-Scholes model and the following weighted average assumptions:

	November 30, 2011
Risk-free interest rate	2.72%
Expected volatility	74.00%
Average option life in years	7.5
Expected dividends	nil
Grant-date share price	$5.65
Option exercise price	$5.65

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.

The following table summarizes the measurement date weighted average fair value of stock options granted during the years ended November 30, 2012 and 2011:

	Number of options	Weighted average grant-date fair value
		$
2012	-	-
2011	250,000	4.08

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.

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

16. Share capital (continued)

(vi) Earnings per share

The calculation of basic (loss) earnings per share was based on the net (loss) profit attributable to common shareholders of the Company of $(13,940) (2011 – $(17,730); 2010 – $8,930), and a weighted average number of common shares outstanding of 60,983,651 (2011 – 60,733,780; 2010 – 61,322,991), calculated as follows:

	November 30, 2012	November 30, 2011	November 30, 2010
Issued common shares at December 1	60,865,266	60,512,764	60,429,393
Effect of share options exercised	118,385	216,828	49,030
Effect of shares issued during the year	-	4,188	1,609
Weighted average number of common shares at November 30	60,983,651	60,733,780	60,480,032

The calculation of diluted earnings per share was based on a weighted average number of common shares calculated as follows:

	November 30, 2012	November 30, 2011	November 30, 2010
Weighted average number of common shares (basic)	60,983,651	60,733,780	60,480,032
Effect of stock options on issue	-	-	842,959
Weighted average number of common shares (diluted) at November 30	60,983,651	60,733,780	61,322,991

At November 30, 2012, 1,426,298 options (2011 – 2,329,470; 2010 – 1,119,664) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. All options outstanding at the end of 2012 and 2011 could potentially dilute basic earnings per share in the future.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

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

17. Income taxes

	November 30, 2012	November 30, 2011	November 30, 2010
	$	$	$
Deferred tax expense:			
Origination and reversal of temporary differences	(4,060)	(4,465)	-
Change in unrecognized deductible temporary differences	4,060	4,465	-
Other	5	(72)	114
Total deferred tax expense (recovery)	5	(72)	114

Reconciliation between effective and applicable tax amounts:

	November 30, 2012	November 30, 2011	November 30, 2010
	$	$	$
Income taxes at domestic tax statutory rate	(3,765)	(5,077)	2,713
Change in unrecognized deductible temporary differences	4,060	4,465	(3,171)
Non-deductible expenses and other	(290)	540	572
	5	(72)	114

The applicable statutory tax rates are 27.02% in 2012, 28.52% in 2011 and 30% in 2010. The Company's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Company operates. The decrease is due mainly to the reduction of the Federal income tax rate in 2012 from 16.5% to 15%.

Deferred tax (expense) recovery

A deferred tax expense of $5 (2011 – recovery of $72; 2010 – expense of $114) related to changes in fair value of available-for-sale financial assets was recognized directly in deficit and accumulated other comprehensive income.

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

17. Income taxes (continued)

Unrecognized deferred tax assets

At November 30, 2012 and 2011, deferred tax assets not recognized were as follows:

	November 30, 2012	November 30, 2011
	$	$
Long-term:		
Research and development expenses	32,070	31,248
Deferred non-capital losses	31,781	26,755
Property and equipment	754	628
Intellectual property and patent fees	5,192	6,923
Available deductions and other	4,371	4,554
	74,168	70,108

Given the Company's past losses, management does not believe that it is probable that the Company can realize its deferred tax assets and therefore, it has not recognized any amount in the statement of financial position.

At November 30, 2012 and 2011, the amounts and expiry dates of tax attributes for which no deferred tax asset was recognized were as follows:

	November 30, 2012		November 30, 2011	
	Federal	Provincial	Federal	Provincial
	$	$	$	$
Research and development expenses, without time limitation	107,646	131,382	106,271	128,634
Losses carried forward:				
2014	153	-	153	-
2015	275	-	275	-
2027	7,638	7,628	7,638	7,628
2028	46,316	30,985	46,316	30,985
2029	19,484	16,467	19,484	16,467
2030	11,440	11,436	11,440	11,436
2031	23,784	21,118	23,541	21,107
2032	20,109	19,004	-	-
Other temporary differences, without time limitation:				
Excess of tax value of property and equipment over carrying value	3,179	2,352	2,766	1,821
Tax value of intellectual property and patent fees	19,295	19,288	25,726	25,716
Available deductions and other	56,864	1,272	57,287	1,694

18. Operating leases

The Company rents its headquarters and main office pursuant to an operating lease (the "Lease") expiring in April 2021. Under the terms of the Lease, the Company has also been granted two renewal options for periods of five years each. Lease payments will increase by 11% beginning on November 1, 2015.

During the year ended November 30, 2012, an amount of $167 was recognized as an expense in respect of operating leases (2011 – $501). Of the amount, $80 (2011 – $112) is included in General and administrative and selling and market development expenses and $87 (2011 – $389) is included in Research and development expenses.

The Company's lease includes a lease of land and building. Since the land title does not pass and the Company does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the building are with the lessor. As such, the Company determined that the lease is an operating lease.

The Company has committed to pay the lessor for its share of some operating expenses of the leased premises. This amount has been set at $240 per year beginning May 1, 2010 and will be increased by 2.5% annually for the duration of the Lease. Refer to note 24 for the contractual commitments related to this Lease.

The lessor granted the Company a monetary allowance of $728 to make leasehold improvements. This amount has been applied against the minimum payment required under the term of the Lease and the operating expenses of leased premises in 2012. Furthermore, the Company benefits from a 25-month rent-free period which is deferred and recognized over the lease term. As at November 30, 2012, $216 was included in Other liabilities (November 30, 2011 – $775) regarding the deferred free rent inducement and allowance (note 15 – Other liabilities).

19. 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 the Company, 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 the Company, a director and a former executive officer. On March 20, 2012, the Company 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. No judgment has been rendered yet following the January 24, 2013 hearing.

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

19. Contingent liability (continued)

The Company has subscribed to insurance covering its potential liability and that of its directors and officers in the performance of their duties for the Company subject to a $200 deductible.

20. Other information

(a) Cash flow information

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

	November 30, 2012	**November 30, 2011**
	$	$
Additions to property and equipment included in accounts payable and accrued liabilities	-	72

(b) Restructuring costs

2012

Restructuring costs amounted to $10,702 for the year ended November 30, 2012. Early in 2012, the Company took steps to narrow the focus of its business by concentrating its efforts on *EGRIFTA*™ and on developing TH1173. The related restructuring costs were $6,176, which were incurred mainly in the first quarter. The Company announced further revisions to its 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.

2011

Following a re-evaluation of its R&D business model, the Company announced a restructuring aimed at relying more on external partners in both the private and public sectors in order to bring its R&D projects forward. The resulting restructuring costs recorded in the year ended November 30, 2011 amounted to $716.

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

20. Other information (continued)

(b) Restructuring costs (continued)

	2012	2011	2010
	$	$	$
Restructuring costs:			
Lease			
Onerous lease provision	5,905	-	-
Writeoff of related deferred lease inducements	(709)	-	-
	5,196	-	-
Depreciation of property and equipment	300	-	-
Writedown of inventories	407	-	-
Employee termination benefits	3,252	606	-
Termination of COPD clinical program	1,067	-	-
Professional fees and other	480	110	-
	5,506	716	-
	10,702	716	-

Provisions related to the restructuring in the consolidated statements of financial position:

	Onerous lease provision	Other costs	Total
	$	$	$
Balance at November 30, 2010	-	-	-
Provisions made during the year	-	716	716
Provisions used during the year	-	(664)	(664)
Balance at November 30, 2011	-	52	52
Provisions made during the year	5,905	3,963	9,868
Provisions used during the year	(455)	(3,870)	(4,325)
Accretion expense	31	-	31
Balance at November 30, 2012	5,481	145	5,626
Less: Current portion	1,066	145	1,211
Non-current portion	4,415	-	4,415

20. Other information (continued)

(b) Restructuring costs (continued)

Due to restructurings incurred in 2012, the Company now occupies approximately fifteen percent of its leased premises, giving rise to an onerous lease provision. The onerous lease provision includes a provision for the future lease costs of the vacant portion of the premises, net of estimated sublease rentals that could reasonably be obtained. The provision is being accreted to its face value through a charge to finance costs in the consolidated statements of comprehensive income. The provision is based on management’s best estimates of sublease rates that have yet to be negotiated, the timing of a sublease transaction estimated for 2014, discount rates and other factors. A change in market conditions could impact management’s estimates.

21. Financial instruments

Overview

This note provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, currency risk and interest rate risk, and how the Company manages those risks.

(a) 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. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of this exposure resulting in losses.

The Company's exposure to credit risk currently relates to accounts receivable with only one customer (see note 5(a)) and derivative financial assets which it manages by dealing only with a highly-rated Canadian financial institution. Included in the consolidated statement of financial position are trade receivables of $1,045 (2011 – $1,364), all of which were aged under 60 days. There was nil recorded as bad debt expense for the year ended November 30, 2012 (November 30, 2011 and November 30, 2010 – nil). Financial instruments other than cash and trade and other receivables that potentially subject the Company to significant credit risk consist principally of bonds. The Company invests its available cash in highly liquid fixed income instruments from governmental, paragovernmental and municipal bodies (November 30, 2012 – $18,991; November 30, 2011 – $34,288). As at November 30, 2012, the Company believes it was not exposed to any significant credit risk for the carrying amount of the bonds.

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

21. Financial instruments (continued)

Overview (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. As indicated in the capital management section below, the Company manages this risk through the management of its capital structure. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors and/or the Audit Committee reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business.

The Company has adopted an investment policy in respect of the safety and preservation of its capital designed to ensure the Company's liquidity needs are met. The instruments are selected with regard to the expected timing of expenditures and prevailing interest rates.

The following are amounts due on the contractual maturities of financial liabilities as at November 30, 2012 and 2011:

					November 30, 2012
	Total	**Carrying amount**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
	$	$	$	$	$
Accounts payable and accrued liabilities	3,339	3,339	3,339	-	-
Provisions	5,626	5,626	1,211	3,099	1,316
	8,965	8,965	4,550	3,099	1,316

					November 30, 2011
	Total	**Carrying amount**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
	$	$	$	$	$
Accounts payable and accrued liabilities	7,129	7,129	7,129	–	–
Provisions	52	52	52	–	–
Forward exchange contract derivatives	16	16	16	–	–
	7,197	7,197	7,197	–	–

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

21. Financial instruments (continued)

Overview (continued)

(c) Currency risk

The Company is 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 the Company's business transactions denominated in currencies other than the Canadian dollar, primarily revenues from milestone payments, sale of goods and expenses incurred in US dollars, euros and pounds sterling ("GBP").

The Company manages currency risk by maintaining cash in US dollars on hand to support US forecasted outflows over a 12-month horizon. The Company does not currently view its 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.

In November 2012, the Company entered into two forward foreign exchange contracts to sell, in aggregate, US$390 for CA$387 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 the 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 the Company's policy on the management of the Company's US foreign currency risk, the Company does not believe a sudden change in foreign exchange rates would impair or enhance its ability to pay its US dollar denominated obligations.

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

			November 30, 2012
	US$	**Euro**	**GBP**
Cash	514	-	-
Trade and other receivables	1,048	-	-
Accounts payable and accrued liabilities	(657)	(17)	(15)
Total exposure from above	905	(17)	(15)
Forward exchange contracts	(390)	-	-
Net exposure	515	(17)	(15)

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

21. Financial instruments (continued)

Overview (continued)

(c) Currency risk (continued)

			November 30, 2011
	US$	**Euro**	**GBP**
Cash	2,386	–	–
Trade and other receivables	1,445	–	–
Accounts payable and accrued liabilities	(1,007)	(31)	(11)
Total exposure from above	2,824	(31)	(11)
Forward exchange contracts	(1,307)	–	–
Net exposure	1,517	(31)	(11)

The following exchange rates are those applicable to the following periods and dates:

		November 30, 2012		November 30, 2011
	Average rate	**Reporting date rate**	**Average rate**	**Reporting date rate**
US$ – CA$	1.0023	0.9936	0.9879	1.0203
Euro – CA$	1.2886	1.2923	1.3754	1.3706
GBP – CA$	1.5838	1.5919	1.5844	1.6009

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:

			November 30, 2012			November 30, 2011
	US$	**Euro**	**GBP**	**US$**	**Euro**	**GBP**
Positive or (negative) impact	(26)	1	1	(76)	2	1

21. Financial instruments (continued)

Overview (continued)

(c) Currency risk (continued)

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.

(d) 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.

Short-term bonds held by the Company 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 the Company will realize a loss as a result of a decline in the fair value of its bonds is limited because these investments, although they are classified as available for sale, are generally held to maturity. The unrealized gains or losses on bonds are recorded in accumulated other comprehensive income.

Based on the value of the Company's short- and long-term bonds at November 30, 2012, 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 $258; an assumed increase in the 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, 2012 ($1,043), an assumed 0.5% increase in interest rates during such period would have increased future cash flows and decrease net loss by approximately $5; an assumed decrease of 0.5% would have had an equal but opposite effect.

22. Capital management

The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its business activities.

To fund its activities, the Company relied primarily on public offerings of common shares in Canada and private placements of its common shares as well as upfront payments and milestone payments primarily associated with EMD Serono. When possible, the Company optimizes its liquidity position using non-dilutive sources, including investment tax credits, grants and interest income. With the market launch of *EGRIFTA*™ in 2011, the Company receives additional revenues in the form of product sales and royalties.

The Company has a $3,800 credit facility, including a line for derivatives, for its short-term financing needs. The facility is subject to certain conditions and was unused at November 30, 2012 (note 24(c)).

The capital management objectives remain the same as for the previous year.

At November 30, 2012, cash and bonds amounted to $20,503 (November 30, 2011 – $36,787) and tax credits and grants receivable amounted to $421 (November 30, 2011 – $346), for a total of $20,924 (November 30, 2011 – $37,133). The Company believes that its cash position will be sufficient to finance its operations and capital needs for the next year.

Currently, the Company's general policy on dividends is to retain cash to keep funds available to finance the Company's growth.

The Company is not subject to any externally imposed capital requirements.

23. 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 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.

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

23. Determination of fair values (continued)

Other financial assets and liabilities

The Company has determined that the carrying values of its short-term financial assets and financial liabilities, including cash, trade and other receivables, accounts payable and accrued liabilities and provisions, 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 historic 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.

24. Commitments

(a) Leases

At November 30, 2012 and 2011, the minimum payments required under the terms of the non-cancellable lease are as follows:

	November 30, 2012	**November 30, 2011**
	$	$
Less than one year	655	136
Between one and five years	2,384	2,311
More than five years	2,487	3,215
	5,526	5,662

(b) Long-term procurement agreements

In 2011, the Company had entered into long-term procurement agreements with third-party suppliers in connection with the commercialization of *EGRIFTA*™. As at November 30, 2012, the Company had outstanding purchase orders and minimum payments required under these agreements amounting to $2,724 for the manufacture of *EGRIFTA*™ for delivery in fiscal years 2013 and 2014 ($1,893 and $831 respectively).

24. Commitments (continued)

(c) Credit facility

The Company has a $1,800 revolving credit facility, bearing interest at prime rate plus 0.5%. Under the term of the 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, the Company will provide the bank with a first rank movable hypothec (security interest) of $1,850 on securities judged satisfactory by the bank.

The Company also has a $2,000 line of net risk for derivative instruments.

As at November 30, 2012 and 2011, the Company did not have any borrowings outstanding under these credit facilities.

(d) 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*™ (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*™.

The Company has 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 currently recruiting clinical sites. The Company has agreed to share the cost of this study equally with EMD Serono and estimates that its share of the cost could amount to an average of $1,300 per year, over a fifteen-year period.

The Phase 4 clinical trial is to assess wheter *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 the Company for the direct costs involved. EMD Serono has now started recruiting patients. The FDA-approved protocol for the trial calls for patients to inject themselves daily with either *EGRIFTA*™ or a placebo over a three-year treatment period. While the Company is committed to supporting the trial, management believes that the protocol conditions will be difficult to meet. The Company estimates that, if completed, the trial could cost approximately $20,000 over a four- to five-year period.

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

25. Operating segments

The Company has a single operating segment. As described in note 5(a), all of the Company's revenues are generated from one customer, EMD Serono, which is domiciled in the United States.

All of the Company's non-current assets are located in Canada, the Company's headquarters.

26. Related parties

The Company has a related party relationship with its wholly owned subsidiaries. There are no transactions between the Company and its subsidiaries.

The key management personnel of the Company are the directors, including the President and Chief Executive Officer and the Senor Executive Vice President and Chief Financial Officer until October 2012, and the President and Chief Executive Officer after that date.

Key management personnel compensation comprised:

	Note	November 30, 2012	November 30, 2011	November 30, 2010
		$	$	$
Short-term employee benefits		1,312	2,616	1,891
Post-employment benefits		61	64	61
Share-based compensation	16(v)	311	1,103	331
Termination benefits		1,500	-	-
		3,184	3,783	2,283

On November 30, 2012, the Company's directors controlled 0.89% of the voting shares of the Company.

27. Subsequent events

Inventories

During the conversion of materials to finished goods in January 2013, a loss of $192 of materials was incurred. The Company is analyzing the responsibility in regards of this event.

Stock option plan

Between December 1, 2012 and February 25, 2013, 233,500 options were forfeited and expired at a weighted average exercise price of $5.37 per share. On December 20, 2012, the Company granted 830,000 options at an exercise price of $0.38 as an employee retention measure. The new options become vested in 2015.

Deferred stock unit plan

Between December 1, 2012 and February 25, 2013, 100,747 DSUs were granted to certain members of the Board of Directors who elected to be compensated by DSUs instead of cash. A related expense of $34 will be recorded in the first quarter of 2013.

In December 2012, the two cash-settled forward stock contracts (note 16(ii)) were amended to expire in December 2013. To protect against fluctuation in the value of the DSUs, the Company entered into another cash-settled forward stock contract in January 2013. The Company paid $50 as advance payment on the contract. This amount corresponds to 100,747 common shares of the Company at a price of $0.50 per share.