

Interim Consolidated Financial Statements of  
(In thousands of Canadian dollars)

## **THERATECHNOLOGIES INC.**

Nine-month periods ended August 31, 2016 and 2015  
(Unaudited)

# THE RATECHNOLOGIES INC.

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(Unaudited)

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# THE RATECHNOLOGIES INC.

Interim Consolidated Statements of Financial Position  
(In thousands of Canadian dollars)

As at August 31, 2016 and November 30, 2015  
(Unaudited)

	Note	August 31, 2016	November 30, 2015
<b>Assets</b>			
Current assets:			
Cash		\$ 320	\$ 15,350
Bonds and money market funds		4,199	-
Trade and other receivables		6,943	4,601
Inventories		12,623	12,705
Prepaid expenses		1,202	1,430
Derivative financial assets		511	332
<b>Total current assets</b>		<b>25,798</b>	<b>34,418</b>
Non-current assets:			
Bonds and money market funds		4,106	-
Property and equipment		130	111
Intangible assets	6	20,620	15,554
<b>Total non-current assets</b>		<b>24,856</b>	<b>15,665</b>
<b>Total assets</b>		<b>\$ 50,654</b>	<b>\$ 50,083</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 10,517	\$ 12,133
Provisions	7	530	304
Current portion of long-term obligation	8	4,141	4,391
Deferred revenue		22	24
<b>Total current liabilities</b>		<b>15,210</b>	<b>16,852</b>
Non-current liabilities:			
Long-term obligation	8	8,695	12,505
Warrant liability	9	943	702
<b>Total non-current liabilities</b>		<b>9,638</b>	<b>13,207</b>
<b>Total liabilities</b>		<b>24,848</b>	<b>30,059</b>
<b>Equity</b>			
Share capital	10	291,353	290,994
Contributed surplus		14,090	8,581
Deficit		(280,840)	(281,077)
Accumulated other comprehensive income		1,203	1,526
<b>Total equity</b>		<b>25,806</b>	<b>20,024</b>
Commitments	14		
<b>Total liabilities and equity</b>		<b>\$ 50,654</b>	<b>\$ 50,083</b>

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

# THE RATECHNOLOGIES INC.

Interim Consolidated Statements of Comprehensive (Loss) Income  
(In thousands of Canadian dollars, except per share amounts)

Periods ended August 31, 2016 and 2015  
(Unaudited)

	Note	For the three-month periods ended August 31,		For the nine-month periods ended August 31,	
		2016	2015	2016	2015
		\$	\$	\$	\$
Revenue:					
Net sales		8,924	9,189	26,691	20,832
Research services:					
Up-front payments and initial technology access fees		-	-	-	200
Royalties and licence fees		1	4	4	12
<b>Total revenue</b>		<b>8,925</b>	<b>9,193</b>	<b>26,695</b>	<b>21,044</b>
Operating expenses:					
Cost of sales:					
Cost of goods sold		1,005	1,250	3,077	2,828
Unallocated production costs		(10)	54	(70)	35
Royalties		659	-	1,673	-
Research and development expenses		1,779	1,471	5,797	3,979
Selling and market development expenses	3	3,660	3,525	10,896	8,578
General and administrative expenses		1,286	865	3,478	2,898
<b>Total operating expenses</b>		<b>8,379</b>	<b>7,165</b>	<b>24,851</b>	<b>18,318</b>
<b>Profit from operating activities</b>		<b>546</b>	<b>2,028</b>	<b>1,844</b>	<b>2,726</b>
Finance income	4	21	4	80	262
Finance costs	4	321	(853)	(1,687)	(1,895)
		342	(849)	(1,607)	(1,633)
Profit before income taxes		888	1,179	237	1,093
Income tax expense		-	-	-	(10)
<b>Net profit for the period</b>		<b>888</b>	<b>1,179</b>	<b>237</b>	<b>1,083</b>
<b>Other comprehensive (loss) income, net of tax:</b>					
Items that may be reclassified to profit (loss) in the future:					
Net change in fair value of available-for-sale financial assets, net of tax		2	-	(8)	(5)
Net change in fair value of available-for-sale financial assets transferred to net profit (loss), net of tax		-	-	-	(60)
Exchange differences on translation		23	576	(315)	1,230
		25	576	(323)	1,165
<b>Total comprehensive (loss) income for the period</b>		<b>913</b>	<b>1,755</b>	<b>(86)</b>	<b>2,248</b>
Earnings per share:					
	10 (b)				
Basic		0.01	0.02	0.00	0.02
Diluted		0.01	0.02	0.00	0.02

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

# THE RATECHNOLOGIES INC.

Interim Consolidated Statements of Changes in Equity  
(In thousands of Canadian dollars)

Periods ended August 31, 2016 and 2015  
(Unaudited)

For the nine-month period ended August 31, 2016							
	Note	Share capital		Contributed surplus	Accumulated other comprehensive		Total
		Number of shares	Amount		Deficit	(loss) income	
			\$	\$	\$	\$	\$
<b>Balance as at November 30, 2015</b>		65,615,603	290,994	8,581	(281,077)	1,526	20,024
<b>Total comprehensive loss for the period</b>							
Net profit for the period		-	-	-	237	-	237
Other comprehensive loss:							
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	(8)	(8)
Exchange differences on translation		-	-	-	-	(315)	(315)
<b>Total comprehensive loss for the period</b>		-	-	-	237	(323)	(86)
<b>Transactions with owners, recorded directly in equity</b>							
Share-based compensation for stock option plan		-	-	432	-	-	432
Exercise of stock option:							
Monetary consideration		317,166	221	-	-	-	221
Attributed value		-	138	(138)	-	-	-
Share-based payment	6	-	-	5,215	-	-	5,215
<b>Total contributions by owners</b>		317,166	359	5,509	-	-	5,868
<b>Balance as at August 31, 2016</b>		65,932,769	291,353	14,090	(280,840)	1,203	25,806

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

# THE RATECHNOLOGIES INC.

Interim Consolidated Statements of Changes in Equity (continued)  
(In thousands of Canadian dollars)

Periods ended August 31, 2016 and 2015  
(Unaudited)

For the nine-month period ended August 31, 2015						
	Share capital		Contributed surplus	Deficit	Accumulated other comprehensive income	Total
	Number of shares	Amount				
		\$	\$	\$	\$	\$
<b>Balance as at November 30, 2014</b>	61,010,603	280,872	8,313	(281,382)	65	7,868
<b>Total comprehensive income for the period</b>						
Net profit for the period	-	-	-	1,083	-	1,083
Other comprehensive (loss) income:						
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(5)	(5)
Net change in fair value of available-for-sale financial assets transferred to net loss, net of tax	-	-	-	-	(60)	(60)
Exchange differences on translation	-	-	-	-	1,230	1,230
<b>Total comprehensive income for the period</b>	-	-	-	1,083	1,165	2,248
<b>Transactions with owners, recorded directly in equity</b>						
Issue of common shares	4,600,000	10,106	-	-	-	10,106
Broker warrants	-	-	127	-	-	127
Share issue costs	-	-	-	(1,266)	-	(1,266)
Share-based compensation plan:						
Share-based compensation for stock option plan	-	-	102	-	-	102
Exercise of stock option:						
Monetary consideration	5,000	9	-	-	-	9
Attributed value	-	7	(7)	-	-	-
<b>Total contributions by owners</b>	4,605,000	10,122	222	(1,266)	-	9,078
<b>Balance as at August 31, 2015</b>	<b>65,615,603</b>	<b>290,994</b>	<b>8,535</b>	<b>(281,565)</b>	<b>1,230</b>	<b>19,194</b>

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

# THE RATECHNOLOGIES INC.

Interim Consolidated Statements of Cash Flows  
(In thousands of Canadian dollars)

Periods ended August 31, 2016 and 2015  
(Unaudited)

	For the three-month periods ended August 31,		For the nine-month periods ended August 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Cash provided from (used in):</b>				
<b>Operating activities:</b>				
Net profit	888	1,179	237	1,083
Adjustments for:				
Depreciation of property and equipment	5	3	15	9
Amortization of intangible assets	490	483	1,506	1,406
Gain on sale of property and equipment	—	—	—	(21)
Change in deferred revenue	—	73	(1)	79
Share-based compensation for stock option plan	266	62	432	102
Change in fair value of warrant liability and foreign currency gain (loss)	(782)	101	241	101
Fair value of broker warrants expensed	—	11	—	11
Income tax	—	—	—	10
(Reversal of) write-down of inventories	(10)	45	(36)	11
Lease inducements and amortization	—	—	—	(2)
Change in fair value of derivative financial assets	115	(173)	(179)	(443)
Change in fair value of liability related to deferred stock unit plan	(114)	173	177	369
Interest income	(21)	(4)	(80)	(14)
Interest received	36	4	39	90
Effect of change of foreign exchange	17	(37)	(203)	(92)
Accretion expense	410	654	1,511	1,863
Gain on long-term obligation renegotiation	—	—	—	(188)
	1,300	2,574	3,659	4,374
Changes in operating assets and liabilities				
Trade and other receivables	318	(1,605)	(2,490)	(3,185)
Inventories	18	259	(52)	(535)
Prepaid expenses	(103)	(177)	198	(126)
Accounts payable and accrued liabilities	(2,114)	518	(1,551)	1,456
Provisions	68	458	239	1,869
	(1,813)	(547)	(3,656)	(521)
<b>Cash flows (used in) from operating activities</b>	<b>(513)</b>	<b>2,027</b>	<b>3</b>	<b>3,853</b>
<b>Financing activities:</b>				
Repayment of long-term obligation	—	(1,983)	(5,196)	(2,602)
Proceeds from issue of warrants	—	934	—	934
Proceeds from issue of common shares	—	10,106	—	10,106
Share issue costs	—	(753)	(25)	(753)
Proceeds from exercise of stock options	1	9	221	9
<b>Cash flows from (used in) financing activities</b>	<b>1</b>	<b>8,313</b>	<b>(5,000)</b>	<b>7,694</b>
<b>Investing activities:</b>				
Acquisition of intangible assets	(77)	—	(1,568)	—
Proceeds from sale of property and equipment	—	—	—	68
Acquisition of property and equipment	(11)	—	(31)	—
Proceeds from sale of bonds and money market funds	10,038	—	32,370	2,333
Acquisition of bonds and money market funds	(9,310)	—	(41,244)	—
Proceeds from disposal of derivative financial assets	—	—	4	133
<b>Cash flows from (used in) investing activities</b>	<b>640</b>	<b>—</b>	<b>(10,469)</b>	<b>2,534</b>
<b>Net change in cash</b>	<b>128</b>	<b>10,340</b>	<b>(15,466)</b>	<b>14,081</b>
<b>Cash, beginning of period</b>	<b>192</b>	<b>4,572</b>	<b>15,350</b>	<b>694</b>
Effect of foreign exchange on cash	—	266	436	403
<b>Cash, end of period</b>	<b>320</b>	<b>15,178</b>	<b>320</b>	<b>15,178</b>

Supplemental cash flow information, see Note 11.

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

# Theratechnologies Inc.

Notes to Interim Consolidated Financial Statements  
(In thousands of Canadian dollars, except per share amounts)

Periods ended August 31, 2016 and 2015  
(Unaudited)

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Theratechnologies Inc. is a specialty pharmaceutical company addressing unmet medical needs to promote healthy living and an improved quality of life among HIV patients.

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

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

## 1. Basis of preparation

### (a) Accounting framework

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

Certain information, in particular the accompanying notes normally included in the annual consolidated financial statements prepared in accordance with IFRS, has been omitted or condensed. These interim financial statements do not include all disclosures required under IFRS and, accordingly, should be read in conjunction with the annual consolidated financial statements for the year ended November 30, 2015 and the notes thereto. These interim financial statements have not been reviewed by the Company's auditors.

These interim financial statements have been authorized for issue by the Company's Audit Committee on October 3, 2016.

### (b) Summary of accounting policies

Except as described below, the preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the annual consolidated financial statements as at November 30, 2015.



# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per share amounts)

Periods ended August 31, 2016 and 2015  
(Unaudited)

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## 1. Basis of preparation (continued)

### (b) Summary of accounting policies (continued)

#### (i) Intangible assets - commercialization rights

Subsequent changes in the fair value of the contingent considerations on acquisition of intangible assets are recorded in the cost of the asset. Commercialization rights are amortized, from the moment they are available for use, at fixed rates on a straight-line basis on the lesser of their estimated useful life or the term of the agreement.

#### (ii) Stock option plan

Share-based payment arrangements in which the Company purchases assets or receives services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

### (c) Basis of measurement

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

### (d) Use of estimates and judgments

The preparation of the Company's interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements, and the reported amounts of revenues and expenses during the reporting periods.

Except described below, information about critical judgments in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the interim financial statements are disclosed in Note 2 of the annual consolidated financial statements as at November 30, 2015.

#### (i) Judgment in applying accounting policies

##### Contingent liability - ibalizumab

The determination of probability to pay the milestones related to the commercialization rights to ibalizumab is subject to critical judgments.

# THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per share amounts)

Periods ended August 31, 2016 and 2015  
(Unaudited)

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## 1. Basis of preparation (continued)

### (e) Functional and presentation currency

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

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

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

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

## 2. Recent changes in accounting standards

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

- (i) On January 13, 2016, the IASB issued IFRS 16, *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, *Leases*.

# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per share amounts)

Periods ended August 31, 2016 and 2015  
(Unaudited)

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## 2. Recent changes in accounting standards (continued)

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

- (i) On January 13, 2016, the IASB issued IFRS 16, *Leases* (continued)

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on December 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

- (ii) On January 7, 2016, the IASB issued *Disclosure Initiative* (amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities.

The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on December 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

## 3. Selling and market development expenses

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	For the three-month periods ended August 31,	
	2016	2015
	\$	\$
Selling and market development expenses	3,170	3,042
Amortization of intangible assets	490	483
	<hr/>	<hr/>
	3,660	3,525

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# THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per share amounts)

Periods ended August 31, 2016 and 2015  
(Unaudited)

## 3. Selling and market development expenses (continued)

	For the nine-month periods ended August 31,	
	2016	2015
	\$	\$
Selling and market development expenses	9,390	7,172
Amortization of intangible assets	1,506	1,406
	10,896	8,578

## 4. Finance income and finance costs

	For the three-month periods ended August 31,	
	2016	2015
	\$	\$
Interest income	21	4
Finance income	21	4
Accretion expense	(410)	(654)
Bank charges	(20)	-
Net foreign currency (loss) gain	(22)	11
Gain (loss) on financial instruments carried at fair value	773	(95)
Issuance costs related to warrant liability	-	(115)
Finance income (costs)	321	(853)
Net finance income (cost) recognized in net profit	342	(849)

# THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per share amounts)

Periods ended August 31, 2016 and 2015  
(Unaudited)

## 4. Finance income and finance costs (continued)

	For the nine-month periods ended August 31,	
	2016	2015
	\$	\$
Interest income	80	14
Net gain on disposal of available-for-sale financial assets	–	60
Gain on long-term obligation renegotiation	–	188
Finance income	80	262
Accretion expense	(1,511)	(1,863)
Bank charges	(43)	(1)
Net foreign currency gain	126	97
Loss on financial instrument carried at fair value	(259)	(13)
Issuance costs related to warrant liability	–	(115)
Finance costs	(1,687)	(1,895)
Net finance cost recognized in net profit	(1,607)	(1,633)

## 5. Inventories

In 2016, the Company recorded a reversal of inventory write-down of \$36 on work in progress. It was recorded in cost of sales as unallocated products cost.

# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per share amounts)

Periods ended August 31, 2016 and 2015  
(Unaudited)

## 6. Intangible assets

	Commercialization rights - ibalizumab	Commercialization rights - <i>EGRIFTA</i> ®	Total
<b>Cost</b>			
Balance as at November 30, 2015	\$ –	\$ 18,749	\$ 18,749
Additions	6,788	–	6,788
Effect of changes in exchange rates	41	(333)	(292)
<b>Balance as at August 31, 2016</b>	<b>\$ 6,829</b>	<b>18,416</b>	<b>25,245</b>
<b>Accumulated amortization</b>			
Balance as at November 30, 2015	\$ –	\$ 3,195	\$ 3,195
Amortization for the period	–	1,506	1,506
	–	4,701	4,701
Effect of changes in exchange rates		(76)	(76)
<b>Balance as at August 31, 2016</b>	<b>\$ –</b>	<b>\$ 4,625</b>	<b>\$ 4,625</b>
<b>Carrying amounts</b>			
August 31, 2016	\$ 6,829	\$ 13,791	\$ 20,620
November 30, 2015	–	15,554	15,554

Cost as at November 30, 2015 includes the regained commercialization rights of *EGRIFTA*® in the United States under the terms of the EMD Serono Termination Agreement (as defined under Note 8).

The amortization expense is included in selling and market development expenses.

# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per share amounts)

Periods ended August 31, 2016 and 2015  
(Unaudited)

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## 6. Intangible assets (continued)

### Commercialization rights - ibalizumab

On March 18, 2016, the Company entered into a 12-year collaboration agreement with TaiMed Biologics, Inc. ("TaiMed") to market and distribute ibalizumab (the "Product") in the United States and in Canada. Ibalizumab is a novel CD4-directed HIV entry-inhibitor and is the first humanized monoclonal antibody in clinical trials for the treatment of HIV. It is currently in a late-stage Phase III clinical trial, the last step before submitting the product for regulatory approval to the United States Food and Drug Administration ("FDA").

### **Financial consideration**

As per the agreement, the Company will make an initial payment of US\$5,000 and further several milestone payments in exchange for the right to commercialize the Product and use TaiMed trademark in connection with such commercialization.

The initial payment of US\$5,000 is to be made in accordance with the following:

- (i) US\$1,000 was paid in cash at the signature of the agreement;
- (ii) US\$1,000 in Company's common shares based on the price at the signature of the agreement (957,169 common shares);
- (iii) US\$2,000 in Company's common shares based on the price on the date of the marketing approval; and
- (iv) US\$1,000 in Company's common shares based on the price on the date of the first commercial sale of the Product by the Company.

The shares will be issued after the date on which both the first commercial sale has been recorded and a manufacturing agreement has been signed between TaiMed and its subcontractor.

The Company recorded as additions to intangible assets during 2016 related to the TaiMed agreement an amount of \$6,788, which is represented by the cash payment of \$1,304 (US\$1,000) at the signature of the agreement, the share-based payment of \$5,215 (US\$4,000) and the \$269 of acquisition costs. The intangible asset will be amortized after the marketing approval of the Product.

As the share-based payment of \$5,215 (US\$4,000) is equity-settled, the Company recognized a corresponding increase in equity. As the shares are not issued yet, the increase in equity is recorded in contributed surplus. Upon the issuance of the shares, this amount will be reclassified in the share capital.

# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per share amounts)

Periods ended August 31, 2016 and 2015  
(Unaudited)

## 6. Intangible assets (continued)

### Commercial milestone payments

As further consideration, the Company shall make the following one-time payment upon the first occurrence of the following commercial event:

Commercial milestone	Commercial milestone payment
(i) Achieving aggregate net sales of US \$20,000 over four consecutive quarters	US\$7,000 payable in two annual installments
(ii) Upon first achieving annual net sales of US\$200,000	US\$10,000
(iii) Upon first achieving annual net sales of US\$500,000	US\$40,000
(iv) Upon first achieving annual net sales of US\$1,000,000	US\$100,000

The Company will also pay Product development milestones to TaiMed. A US\$3,000 milestone (payable in two annual installments) is due upon the approval of a once every two weeks intramuscular route of administration. TaiMed is also planning a larger Phase III trial with the once every four weeks intramuscular or subcutaneous route of administration to address a much broader patient population. This development milestone will consist of an upfront milestone payment of up to US\$50,000, depending on the size of the newly targeted population, which will be paid quarterly, based on a percentage of net sales generated by the Product.

The commercial milestone payments should be accrued and recorded in the cost of the intangible asset when it is probable that it will be paid. The commercial milestone payments represent licence fee consideration and, therefore, should be added to the cost of the intangible asset as the Company's accounting policy considers changes in fair value against the asset's cost. In order to demonstrate that the commercial milestone payment is probable, the Product will need to have been launched and there should be a sufficient history of sales to have a reasonable expectation that the commercial milestone payments will be reached. As at August 31, 2016, no commercial milestone payments were recognized.

### Other consideration

Pursuant to the terms of the agreement, the Company has exclusive rights to commercialize ibalizumab in the United States and in Canada. TaiMed will continue to be responsible for the development of ibalizumab and to seek approval from the FDA, whereas the Company will be responsible to obtain the approval from Health Canada. TaiMed will manufacture and supply ibalizumab to the Company. The transfer price is determined at 52% of the net selling price of the net Product and a 10% premium is added for the first manufactured Products until an additional amount of US\$5,500 has been paid.



# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
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## 7. Provisions

	<b>Chargebacks and rebates</b>	<b>Returns</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance as at November 30, 2015	284	20	304
Provisions made	2,284	44	2,328
Provisions used	(2,090)	(2)	(2,092)
Effect of changes in the exchange rate	(9)	(1)	(10)
<b>Balance as at August 31, 2016</b>	<b>469</b>	<b>61</b>	<b>530</b>

## 8. Long-term obligation

	<b>2016</b>
	<b>\$</b>
Early termination fee	12,836
Current portion	(4,141)
<b>Non-current portion as at August 31, 2016</b>	<b>8,695</b>

Under the terms of the agreement terminating the collaboration and licensing agreement with EMD Serono, Inc. (the "EMD Serono Termination Agreement"), the Company agreed to pay an early termination fee of US\$20,000 (the "Early Termination Fee"). In 2015, the Company restructured the amount and payment terms of the initial long-term obligation payment. Under the new terms, payments totalling US\$4,168 were paid in 2015 (previously US\$4,000). The remaining annual payments of US\$4,000 are unchanged and are due on May 1 of each year beginning on May 1, 2016 (paid) up to May 1, 2019, bringing the total Early Termination Fee to US\$20,168.

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

# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
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## 8. Long-term obligation (continued)

Long-term obligation is payable as follows:

	Capital	Accrued interest	Total
	\$	\$	\$
Less than one year	3,588	1,658	5,246
Between one and five years	8,695	1,798	10,493
	12,283	3,456	15,739

## 9. Warrant liability

On August 6, 2015, the Company closed a public offering of 4,600,000 units, each unit consisting of one common share and one-half of a common share purchase warrant of the Company, with each warrant exercisable for a period of 24 months from the date of closing of the offering at an exercise price of \$3.00 per share. Under IFRS, the prescribed accounting treatment for warrants issued with an exercise price denominated in a foreign currency is to classify these warrants as a liability measured at fair value. At each subsequent reporting date, the warrants are re-measured at their fair value and the change in fair value is recognized through profit or loss. Details related to the warrant liability are summarized below:

	Number of warrants	Liability amount
		\$
Balance as at November 30, 2014	–	–
Issued in public offering	2,300,000	934
Change in fair value of warrant liability	–	(250)
Foreign currency loss	–	18
Balance as at November 30, 2015	2,300,000	702
Change in fair value of warrant liability		261
Foreign currency gain		(20)
Balance as at August 31, 2016	2,300,000	943

# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
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## 10. Share capital

### (a) Stock option plan

The Company has established a stock option plan under which it may grant its directors, officers, employees, researchers and consultants non-transferable options for the purchase of common shares. The exercise date of an option may not be later than ten years after the grant date. A maximum number of 6,580,000 options can be granted under the plan. Generally, the options vest at the date of the grant or over a period of up to three years. As at August 31, 2016, 2,357,306 options were available to be granted by the Company (August 31, 2015 - 1,242,306).

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

Changes in the number of options outstanding were as follows:

	Number of options	Weighted average exercise price per option \$
Options as at November 30, 2014	1,862,669	2.12
Granted	300,000	1.11
Expired	(44,834)	2.39
Forfeited	(20,000)	0.38
Exercised	(5,000)	1.80
Options as at August 31, 2015	2,092,835	1.98
Options as at November 30, 2015	2,092,835	1.98
Granted	620,000	2.07
Expired	(155,000)	2.31
Exercised (share price: \$2.31)	(317,166)	0.70
Options as at August 31, 2016	2,240,669	2.17

During the nine-month period ended August 31, 2016, \$432 (2015 - \$102) was recorded as share-based compensation expense for the stock option plan.

# THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
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## 10 Share capital (continued)

### (a) Stock option plan (continued)

The fair value of options granted was estimated at the grant date using the Black-Scholes model and the following weighted average assumptions:

	For the nine-month periods ended August 31,	
	2016	2015
Risk-free interest rate	1.09%	1.39%
Expected volatility	79.22%	52.66%
Average option life	8.0 years	8.0 years
Expected dividends	—	—
Grant-date share price	\$2.07	\$1.11
Option exercise price	\$2.07	\$1.11

	For the three-month periods ended August 31,	
	2016	2015
Risk-free interest rate	0.85%	—
Expected volatility	76.6%	—
Average option life	8.0 years	—
Expected dividends	—	—
Grant-date share price	\$2.45	—
Option exercise price	\$2.45	—

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 on weighted average historical volatility adjusted for changes expected due to publicly available information. The life of the options is estimated taking into consideration the vesting period at the grant date, the life of the option and the average length of time similar grants have remained outstanding in the past. The dividend yield was excluded from the calculation since it is the present policy of the Company to retain all earnings to finance operations and future growth.

# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
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## 10. Share capital (continued)

### (a) Stock option plan (continued)

The following table summarizes the weighted average fair value of stock options granted during the end of periods:

	Number of options	For the three-month periods ended August 31,		
		2016	2015	
		Weighted average grant-date fair value	Number of options	Weighted average grant-date fair value
		\$		\$
Options granted	85,000	1.79	–	–

  

	Number of options	For the nine-month periods ended August 31,		
		2016	2015	
		Weighted average grant-date fair value	Number of options	Weighted average grant-date fair value
		\$		\$
Options granted	620,000	1.44	300,000	0.63

# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
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## 10. Share capital (continued)

### (b) Earnings (loss) per share

For the nine-month period ended August 31, 2016, the calculation of basic earnings per share was based on the net profit attributable to common shareholders of the Company of \$237 (August 31, 2015 - net profit of \$1,083), and a weighted average number of common shares outstanding of 65,762,178 (August 31, 2015 - 61,447,957), calculated as follows:

	<b>For the three-month periods ended August 31,</b>	
	<b>2016</b>	<b>2015</b>
Issued common shares as at June 1	65,932,769	61,010,603
Effect of share options exercised	–	2,554
Effect of public issue of common shares	–	1,300,000
<b>Weighted average number of common shares</b>	<b>65,932,769</b>	<b>62,313,157</b>

  

	<b>For the nine-month periods ended August 31,</b>	
	<b>2016</b>	<b>2015</b>
Issued common shares as at December 1	65,615,603	61,010,603
Effect of share options exercised	146,575	858
Effect of public issue of common shares	–	436,496
<b>Weighted average number of common shares</b>	<b>65,762,178</b>	<b>61,447,957</b>

# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
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## 10. Share capital (continued)

### (b) Earnings (loss) per share (continued)

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

	<b>For the three-month periods ended August 31,</b>	
	<b>2016</b>	<b>2015</b>
Weighted average number of common shares	65,932,769	62,313,157
Effect of potential dilutive share options	850,224	801,084
<b>Weighted average number of diluted common shares</b>	<b>66,782,993</b>	<b>63,114,241</b>

  

	<b>For the nine-month periods ended August 31,</b>	
	<b>2016</b>	<b>2015</b>
Weighted average number of common shares	65,762,178	61,447,957
Effect of potential dilutive share options	727,306	622,776
<b>Weighted average number of diluted common shares</b>	<b>66,489,484</b>	<b>62,070,733</b>

# THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)  
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## 10. Share capital (continued)

### (b) Earnings (loss) per share (continued)

For the three-month period ended August 31, 2016, a number of 910,000 share options (for the nine-month period ended August 31, 2016 - 995,000), 2,300,000 warrants, 184,000 broker warrants and the shares to be issued in connection with the acquisition of the commercialization rights of ibalizumab (Note 7), that may potentially dilute earnings per share in the future, were excluded from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive.

For the three-month period ended August 31, 2015, a number of 505,000 share options (for the nine-month period ended August 31, 2015 - 1,127,835), 2,300,000 warrants, 184,000 broker warrants that may potentially dilute earnings per share in the future were excluded from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive.

## 11. Other information

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

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	Note	August 31, 2016	November 30, 2015
		\$	\$
Additions to intangible assets included in contributed surplus	6	5,215	–
Additions to property and equipment included in accounts payable and accrued liabilities		–	5
Share issue costs included in accounts payable and accrued liabilities		–	25
Reimbursement of prepayment of derivative financial assets included in trade and other receivable		–	4

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# **THERATECHNOLOGIES INC.**

Notes to Interim Consolidated Financial Statements (continued)  
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## **12. Financial instruments**

Except as described below, the nature and extent of the Company's exposure to risks arising from financial instruments are unchanged compared to the ones disclosed in the annual consolidated financial statements as at November 30, 2015.

### **Currency risk**

In 2016, the Company is exposed to financial risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates on bonds and money market funds.

## **13. Determination of fair values**

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

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

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

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

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

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

### **Long-term obligation**

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

# **THERATECHNOLOGIES INC.**

Notes to Interim Consolidated Financial Statements (continued)  
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## **13. Determination of fair values (continued)**

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

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

The fair value (Level 2) of the share-based payment arrangement to purchase the commercialization rights of ibalizumab has been determined using the fixed value to be paid in common shares. That value will remain the same amount even if the Company share price fluctuates on the market.

### **Warrant liability**

The warrant liability is recognized at fair value and considered Level 2 in the fair value hierarchy for financial instruments. The fair value is determined using the adjusted quoted price in order to consider the bid and ask price in low-market trade activities.

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

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

Bonds and money market funds 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).

# **THERATECHNOLOGIES INC.**

Notes to Interim Consolidated Financial Statements (continued)  
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## **14. Commitments**

### **Credit facilities**

In November 2015, the Company established a CAD \$2,000 revolving credit facility, bearing interest at Canadian prime plus 1%, secured by stocks and accounts receivable. During the third quarter of 2016, the facility was replaced by two components: a CAD \$1,500 revolving credit facility bearing interest at Canadian prime plus 1% and a USD \$1,000 revolving credit facility bearing interest at U.S. prime plus 1%. As at August 31, 2016, the Company did not have any borrowings outstanding under these facilities.