



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED AUGUST 31, 2015

The following Management's Discussion and Analysis, or MD&A, provides Management's point of view on the financial position and results of operations of Theratechnologies Inc., on a consolidated basis, for the three- and nine-month periods ended August 31, 2015 as compared to the three- and nine-month periods ended August 31, 2014. Unless otherwise indicated or unless the context requires otherwise, all references in this MD&A to "Theratechnologies", the "Company", the "Corporation", "we", "our", "us" or similar terms refer to Theratechnologies Inc. and its subsidiaries on a consolidated basis. This MD&A is dated September 30, 2015, was approved by our Audit Committee, and should be read in conjunction with our unaudited interim consolidated financial statements and the notes thereto as at August 31, 2015, as well as the MD&A and audited consolidated financial statements including the notes thereto as at November 30, 2014. The interim consolidated financial statements for the three- and nine-month periods ended August 31, 2015 have not been reviewed by our auditors.

The financial information contained in this MD&A and in our unaudited interim consolidated financial statements and audited consolidated financial statements has been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. IFRIC refers to International Financial Reporting Interpretation Committee. All monetary amounts set forth in this MD&A are expressed in Canadian dollars, except where otherwise indicated. References to \$ and C\$ are to Canadian dollars and references to US\$ are to US dollars.

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

This MD&A contains information that we believe may affect our prospective financial condition, cash flows and results of operations. Readers are cautioned to consult the section, "Forward-Looking Information", below.

Business Overview

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

Our first product, *EGRIFTA*[®] (tesamorelin for injection), was approved by the United States Food and Drug Administration, or FDA, in November 2010 and by Health Canada in March 2015, and is, to date, the only approved therapy for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy.

The primary focus of the business plan that we established for 2015 is the successful commercialization of *EGRIFTA*[®] in the United States in order to build a profitable base of operations for the Company. We have made solid progress in this regard in the first nine months of fiscal 2015. We have achieved significant sales growth in each of the first three quarters of the year and the Company turned profitable and cash-flow positive in the second quarter. As described more fully below, profitability and cash flow continued to improve in the most recent three-month period.

Our other principal objectives for 2015 have now all been met. These included launching *EGRIFTA*[®] in the Canadian market, securing a commercial partner to distribute *EGRIFTA*[®] in

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Europe and the receipt of a regulatory decision concerning the approval of *EGRIFTA*[®] in Mexico. In addition, on August 31, 2015, we announced an agreement with BL&H Co., Ltd, or BL&H, for the distribution and commercialization of *EGRIFTA*[®] in South Korea. The BL&H agreement represents another important step in our efforts to realize the full therapeutic and commercial potential of *EGRIFTA*[®] in selected territories.

United States Market

Net sales of *EGRIFTA*[®], which were substantially all in the US, reached \$9,189,000 in the third quarter, a 30% increase over the \$7,076,000 recorded in the second quarter and the third consecutive quarter of significant sales growth since we relaunched the product in the fourth quarter of fiscal 2014. Our sales success has largely been driven by a high recapture rate of previous patients and broad acceptance by third-party payors. We are now accelerating our selling and marketing efforts with a view to growing our US revenues over the longer term.

The continued sales growth has led to higher profits and higher adjusted earnings before interest, taxes, depreciation and amortization, or Adjusted EBITDA. In the third quarter, net profit grew 44% over the second quarter to reach \$1,179,000, while Adjusted EBITDA grew 39% over the second quarter to reach \$2,621,000. The growth of these important measures demonstrate that we are continuing to achieve the goals we set for ourselves when we regained the US rights to *EGRIFTA*[®] in 2014. For a reconciliation of net profit and Adjusted EBITDA see Supplementary Information (below).

Other Markets

The third quarter marked the beginning of *EGRIFTA*[®] sales in Canada and of sales to our European partner. In both cases sales to date have been modest, which is to be expected as we are just getting started in these markets.

On July 14, 2015, we announced that the Mexican health agency, COFEPRIS, has approved the 2 mg/vial presentation of *EGRIFTA*[®]. In order to launch *EGRIFTA*[®] in Mexico, our partner, sanofi, is now seeking approval for the 1 mg/vial presentation, the format that we are now supplying in other territories.

Public Offering Completed

On August 6, 2015, we announced the closing of a public offering for gross proceeds of \$11,040,000. The offering consisted of 4,600,000 units (including a fully exercised option granted to the underwriters for the purchase of 600,000 over-allotment units). Each unit, which was priced at \$2.40, consisted of one common share and one-half of a common share purchase warrant exercisable for a period of 24 months at an exercise price of \$3.00 per share. Approximately 50% of the net proceeds of the offering are expected to be used to accelerate US commercialization activities for *EGRIFTA*[®] with the balance being applied to the working capital that will be needed to support the anticipated growth in *EGRIFTA*[®] sales.

Revenue

Regaining the US commercialization rights to *EGRIFTA*[®] in 2014 has had a significant impact on our operations and key aspects of our financial reporting, rendering year-over-year performance comparisons less useful as a means of assessing the Company. As described below, revenue and selling and market development expenses are the accounting measures most affected by this change.

Revenue in fiscal 2015 is principally net sales of *EGRIFTA*[®] to RxC Acquisition Company, or RxCrossroads, our exclusive distributor in the United States. These net sales are at a significantly higher price than were the sales of *EGRIFTA*[®] to EMD Serono, Inc., or EMD Serono, for re-sale in 2014. In addition, revenue in 2014 had two additional components that no longer apply as a consequence of the termination of our collaboration and licensing agreement with EMD Serono, or EMD Serono Termination Agreement. The affected revenue components are the amortization of the initial payment received from EMD Serono and royalties on *EGRIFTA*[®] sales by EMD Serono.

Consolidated revenue for the three- and nine-month periods ended August 31, 2015 was \$9,193,000 and \$21,044,000 compared to \$4,000 and \$4,069,000 in the comparable periods of fiscal 2014.

Consolidated Revenue

(in thousands of Canadian dollars)

	Three-month periods ended August 31,		Nine-month periods ended August 31,	
	2015	2014	2015	2014
Net Sales	9,189	--	20,832	675
Upfront and milestone payments	--	--	200	2,770
Royalties	4	4	12	624
Revenue	9,193	4	21,044	4,069

Revenue generated from net sales in the three- and nine-month periods ended August 31, 2015 was \$9,189,000 and \$20,832,000 compared to nil and \$675,000 in the comparable periods of fiscal 2014. The significant increases in the current fiscal-year periods reflect the changes to the Company's business model referred to above and our subsequent sales success. In the comparable periods of fiscal 2014, net sales were adversely affected by production difficulties, which have since been remedied.

In the nine-month period ended August 31, 2015, we received an upfront payment of \$200,000 from AOP, our commercial partner in Europe. The amount recorded as upfront and milestone payments in the nine-month period ended August 31, 2014 was related to amortization of the initial payment received in relation to our then collaboration and licensing agreement with EMD Serono, or EMD Serono Agreement. With the termination of this agreement on May 1, 2014, all of the unamortized balance of the initial payment was recognized as revenue at that time.

Cost of Sales

For the three- and nine-month periods ended August 31, 2015, the cost of sales was \$1,304,000 and \$2,863,000 compared to \$212,000 and \$1,851,000 in the comparable periods of fiscal 2014. The cost of sales in the three- and nine-month periods ended August 31, 2014 included unallocated production costs of \$212,000 and \$1,251,000 respectively.

R&D Expenses

R&D expenses in the three- and nine-month periods ended August 31, 2015 were \$1,471,000 and \$3,979,000 compared to \$1,036,000 and \$4,453,000 in the comparable periods of fiscal 2014. Most of the expenses in both years relate to the two Phase 4 clinical trials currently being conducted as required by the FDA in connection with its approval of *EGRIFTA*[™]. The first trial is a long-term observational safety study, or Observational Study, and the second study is to assess whether *EGRIFTA*[®] increases the incidence or progression of diabetic retinopathy in diabetic HIV-infected patients with lipodystrophy and excess abdominal fat, or Retinopathy Study.

Our costs associated with the Observational Study amounted to \$343,000 and \$1,003,000 in the three- and nine-month periods ended August 31, 2015 compared to \$276,000 and \$708,000 in the comparable periods of fiscal 2014. For the first five months of fiscal 2014, the Observational Study costs were shared equally with EMD Serono. The costs associated with the Retinopathy Study were \$485,000 and \$1,504,000 in the three- and nine-month periods ended August 31, 2015 compared to \$350,000 and \$2,205,000 in the comparable periods of fiscal 2014.

R&D expenses also include medical affairs activities, notably pharmacovigilance, medical science liaison and regulatory matters.

Selling and Market Development Expenses

Selling and market development expenses amounted to \$3,525,000 and \$8,578,000 for the three- and nine-month periods ended August 31, 2015, compared to \$1,720,000 and \$5,247,000 in the comparable periods of fiscal 2014.

There has been a significant increase in selling and market development activity since regaining the commercialization rights for *EGRIFTA*[®] in the US market. In the three-month period ended August 31, 2015, we began to accelerate our marketing activity and added an additional sales representative.

Selling and market development expenses also now include the amortization of the intangible asset value established for the *EGRIFTA*[®] commercialization rights. This amortization expense amounted to \$483,000 and \$1,406,000 in the three- and nine-month periods ended August 31, 2015 compared to \$432,000 and \$576,000 in the comparable periods of fiscal 2014.

General and Administrative Expenses

General and administrative expenses amounted to \$865,000 and \$2,898,000 in the three- and nine-month periods ended August 31, 2015, compared to \$914,000 and \$3,254,000 in the comparable periods of fiscal 2014. The higher expenses in 2014 were largely associated with professional fees.

Finance Income (Costs)

Finance income for the three- and nine-month periods ended August 31, 2015 was \$4,000 and \$262,000 compared to \$66,000 and \$294,000 in the comparable periods of fiscal 2014. Interest revenue has trended lower due to a gradual decline in the portfolio size and liquidity is now invested in lower-yielding, short-term instruments. Finance income in the nine months ended August 31, 2015 includes a gain of \$188,000 on the renegotiation of the long-term obligation owed to EMD Serono under the terms of the EMD Serono Termination Agreement (see "Financial Position" below).

Finance costs for the three- and nine-month periods ended August 31, 2015, were \$853,000 and \$1,895,000, including accretion expense of \$654,000 and \$1,863,000 respectively on the long-term obligation owed to EMD Serono. The three- and nine-month periods in fiscal 2015 also include issuance costs related to warrant liability of \$115,000 and change in fair value of warrant liability of \$95,000.

Finance costs for the three-month period ended August 31, 2014 were \$574,000, including \$508,000 of accretion expense on the long-term obligation owed to EMD Serono. For the nine-month period ended August 31, 2014, finance costs were \$561,000, which was principally \$678,000 of long-term obligation accretion expense, partially offset by foreign exchange gains of \$121,000.

Federal Investment Tax Credits

In the second quarter of fiscal 2014, the Company settled a dispute with the Canada Revenue Agency in respect of an investment tax credit refund claim related to its 1994 and 1995 taxation years, resulting in a refund of \$4,110,000. There were no items of this nature in fiscal 2015.

Adjusted EBITDA

Adjusted EBITDA in the three months ended August 31, 2015 was \$2,621,000, a 39% increase over the \$1,885,000 recorded in the previous quarter. Adjusted EBITDA in the comparable period of fiscal 2014 was \$(3,360,000). For the nine months ended August 31, 2015, Adjusted EBITDA was \$4,254,000 compared to \$(9,070,000) in the comparable period of fiscal 2014. The significant improvement Adjusted EBITDA in 2015 is principally due to regaining the US commercialization rights to *EGRIFTA*[®] in May 2014 and to business plan initiatives adopted since that time. For a reconciliation of net profit and Adjusted EBITDA see Supplementary Information (below).

Net Profit (Loss)

Taking into account the revenue and expense variations described above, the net profit for the three-month period ended August 31, 2015 was \$1,179,000, a 44% increase over the \$818,000 recorded in the previous quarter. In the comparable period of 2014, we incurred a net loss of \$4,394,000. For the nine-month period ended August 31, 2015, the net profit was \$1,083,000 compared to a net loss of \$6,921,000 in the comparable period of fiscal 2014.

On a per share basis, the net profit for the three- and nine-month periods ended August 31, 2015 was \$0.02 and \$0.02 respectively, compared to net losses per share of \$(0.07) and \$(0.11) in the comparable periods of fiscal 2014.

Financial Position

In the three-month period ended August 31, 2015, operating activities generated positive cash flow of \$2,027,000, an 83% increase over the previous quarter. In the comparable period of fiscal 2014, cash flow from operating activities was \$156,000. In the nine-month period ended August 31, 2015, operating activities generated positive cash flow of \$3,853,000 compared to negative \$5,623,000 in the comparable period of 2014.

In the first quarter of fiscal 2015, the Company restructured the amount and payment terms of the initial long-term obligation payment, which was due May 1, 2015. Under the new terms, the first payment totals US \$4,167,808 (previously US \$4,000,000) to be paid in three unequal installments as follows: US \$500,000 on May 1, 2015 (now paid); US \$1,550,548 on August 31, 2015 (now paid); and US \$2,117,260 on November 30, 2015. The four remaining annual payments of US \$4,000,000 are unchanged and are due on May 1 of each year beginning on May 1, 2016 up to May 1, 2019, bringing the total early termination fee to US \$20,168,000 (see note 9 of our interim consolidated financial statements).

The public offering in the third quarter of fiscal 2015 generated net proceeds of \$10,287,000.

As at August 31, 2015, liquidities, which include cash and bonds, amounted to \$15,178,000, up from \$3,178,000 at November 30, 2014.

Quarterly Financial Information

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

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

	2015				2014			2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net sales	\$9,189	\$7,076	\$4,567	\$2,657	\$ --	\$--	\$675	\$311
Upfront and milestone payments	\$--	\$ 200	\$ --	\$ --	\$--	\$2,450	\$320	\$320
Royalties and license fees	\$4	\$4	\$4	\$6	\$4	\$(57)	\$677	\$615
Revenue	\$9,193	\$7,280	\$4,571	\$2,663	\$4	\$2,393	\$1,672	\$1,246
Net profit (loss)	\$1,179	\$818	\$(914)	\$(3,620)	\$(4,394)	\$1,007	\$(3,534)	\$(2,598)
Basic and diluted profit (loss) per share	\$0.02	\$0.01	\$(0.01)	\$(0.06)	\$(0.07)	\$0.02	\$(0.06)	\$(0.04)

With the closing of the EMD Serono Termination Agreement on May 1, 2014, the US commercialization rights for *EGRIFTA*[®] reverted to us and net sales from that point on represent sales to our distributor, RxCrossroads. Net sales prior to May 1, 2014 represent lower margin sales to EMD Serono for re-sale.

The significant increases in net sales in the first three quarters of 2015 are principally attributable to a high recapture rate of previous patients and broad acceptance by third-party payors, continuing trends established in the fourth quarter of 2014 when *EGRIFTA*[®] was re-introduced to the market.

Revenue from net sales in the second and third quarters of 2014 was nil due to a lack of inventory following the suspension of *EGRIFTA*[®] manufacturing on February 14, 2014.

With the closing of the EMD Serono Termination Agreement on May 1, 2014, all of the \$2,238,000 unamortized balance of the initial payment was recognized as revenue in the second quarter of 2014.

Royalties on the sales of *EGRIFTA*[®] by EMD Serono ended on May 1, 2014.

The net profit reported in the second quarter of 2014 took into account \$4,110,000 received in settlement of a dispute over an investment tax credit refund claim related to our 1994 and 1995 taxation years.

Recent changes in accounting standards

New or revised standards and interpretations issued but not yet adopted

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

a) IFRS 9, Financial Instruments

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

b) IFRS 15, Revenue from Contracts with Customers

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

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

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

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

This standard is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted, the Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

Outstanding Share Data

On September 30, 2015, the number of common shares issued and outstanding was 65,615,603 while outstanding options granted under our stock option plan were 2,092,835. There were also 2,300,000 common share purchase warrants and 184,000 broker warrants issued and outstanding. The broker warrants allow for the purchase of 184,000 common shares and 92,000 common share purchase warrants (see note 11 (a) of our interim consolidated financial statements).

Internal Control

No significant changes have occurred in our internal control over financial reporting during the period beginning on June 1, 2014 and ending on August 31, 2015.

Contractual Obligations

There were no material changes in contractual obligations during the three-month period ended August 31, 2015, other than in the ordinary course of business.

Economic and Industry Factors

Economic and industry factors were substantially unchanged from those reported in our MD&A for the fiscal year ended November 30, 2014, dated February 25, 2015.

Supplementary Information

Reconciliation of net profit or loss to adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA)

Adjusted EBITDA is a non-IFRS financial measure. A reconciliation of the Adjusted EBITDA is presented in the table below. We use adjusted financial measures to assess our operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. We use Adjusted EBITDA to measure operating performance from one period to the next without the variation caused by certain adjustments that could potentially distort the analysis of trends in our business, and because we believe it provides meaningful information on our financial condition and operating results.

We obtain our Consolidated Adjusted EBITDA measurement by adding to net profit or loss, finance income and costs, depreciation and amortization, income taxes, as well as federal investment CRA credits recorded in 2014. We also exclude the effects of certain non-monetary transactions recorded, such as share-based compensation for stock option plan and write down of inventories, for our Adjusted EBITDA calculation. We believe it is useful to exclude these items as they are either non-cash expenses, items that cannot be influenced by management in the short term, or items that do not impact core operating performance. Excluding these items does not imply they are necessarily nonrecurring. Share-based compensation costs are a component of employee remuneration and can vary significantly with changes in the market price of the company's shares. In addition, other items that do not impact core operating performance of the company may vary significantly from one period to another. As such, Adjusted EBITDA provides improved continuity with respect to the comparison of our operating results over a period of time. Our method for calculating Adjusted EBITDA may differ from that used by other companies.

Adjusted EBITDA

(in thousands of Canadian dollars)

	Three-month periods ended August 31,		Nine-month periods ended August 31,	
	2015	2014	2015	2014
Net profit (loss)	\$ 1,179	\$ (4,394)	\$ 1,083	\$ (6,921)
Add (deduct):				
Depreciation and amortization	486	446	1,415	618
Finance costs	853	574	1,895	561
Finance income	(4)	(66)	(262)	(294)
Share-based compensation for stock option plan	62	21	102	61
Federal investment tax credits	0	0	0	(4,110)
Income tax expenses	0	8	10	28
Writedown of inventories	45	51	11	987
Adjusted EBITDA	2,621	(3,360)	4,254	(9,070)

Forward-Looking Information

This MD&A contains forward-looking statements and forward-looking information, or, collectively, forward-looking statements, within the meaning of applicable securities laws, that are based on our management's belief and assumptions and on information currently available to our management. You can identify forward-looking statements by terms such as "may", "will", "should", "could", "would", "outlook", "believe", "plan", "envisage", "anticipate", "expect" and "estimate", or the negatives of these terms, or variations of them. The forward-looking statements contained in this MD&A include, but are not limited to, statements regarding the successful commercialization of *EGRIFTA*[®] in the United States and the building of a profitable base of operations for the Company.

Forward-looking statements are based upon a number of assumptions and include, but are not limited to, the following: our marketing campaign in the United States will allow us to increase the patient base for *EGRIFTA*[®], we will have continuous supply *EGRIFTA*[®], the United States Food and Drug Administration will not issue any order or decision having the effect of suspending the commercialization of *EGRIFTA*[®] in the United States, government-sponsored drug plans in Canada will list *EGRIFTA*[®] as a reimbursed drug, *EGRIFTA*[®] will be accepted by the marketplace in territories outside of the United States and the relationships with our commercial partners and third-party suppliers will be conflict-free.

Forward-looking statements are subject to a variety of risks and uncertainties, many of which are beyond our control that could cause our actual results to differ materially from those that are disclosed in or implied by the forward-looking statements contained in this MD&A. These risks and uncertainties include, but are not limited to, the risk that sales of *EGRIFTA*[®] in the United States decrease, the risk that we are unable to supply *EGRIFTA*[®] in the United States and in Canada because of increasing sales or because of manufacturing issues which would deplete our current inventory, the risk that *EGRIFTA*[®] is subject to a recall and the risk that our operating expenses are materially adversely affected by unforeseen events. We refer potential investors to the "Risks Factors" section of our Annual Information Form dated February 25, 2015 available at www.sedar.com. The reader is cautioned to consider these and other risks and uncertainties carefully and not to put undue reliance on forward-looking statements. Forward-looking statements reflect current expectations regarding future events and speak only as of the date of this MD&A and represent our expectations as of that date.

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