

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

THERATECHNOLOGIES INC.

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

THE RATECHNOLOGIES INC.

Table of Contents
(Unaudited)

	Page
Interim Consolidated Statements of Financial Position	1
Interim Consolidated Statements of Comprehensive (Loss) Income	2
Interim Consolidated Statements of Changes in Equity	3 - 4
Interim Consolidated Statements of Cash Flows	5
Notes to Interim Consolidated Financial Statements	6 - 23

THE RATECHNOLOGIES INC.

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

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

	Note	May 31, 2016	November 30, 2015
Assets			
Current assets:			
Cash and cash equivalents	5	\$ 4,730	\$ 15,350
Bonds		28	–
Trade and other receivables		7,265	4,601
Inventories		12,625	12,705
Prepaid expenses		627	1,430
Derivative financial assets		1,098	332
Total current assets		26,373	34,418
Non-current assets:			
Bonds		4,481	–
Property and equipment		124	111
Intangible assets	7	21,106	15,554
Total non-current assets		25,711	15,665
Total assets		\$ 52,084	\$ 50,083
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 12,833	\$ 12,133
Provisions	8	461	304
Current portion of long-term obligation	9	3,725	4,391
Deferred revenue		22	24
Total current liabilities		17,041	16,852
Non-current liabilities:			
Long-term obligation	9	8,691	12,505
Warrant liability	10	1,725	702
Total non-current liabilities		10,416	13,207
Total liabilities		27,457	30,059
Equity			
Share capital	11	291,353	290,994
Contributed surplus		13,824	8,581
Deficit		(281,728)	(281,077)
Accumulated other comprehensive income		1,178	1,526
Total equity		24,627	20,024
Total liabilities and equity		\$ 52,084	\$ 50,083

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)

Six-month periods and three-month periods ended May 31, 2016 and 2015
(Unaudited)

	Note	For the three-month periods ended May 31,		For the six-month periods ended May 31,	
		2016	2015	2016	2015
		\$	\$	\$	\$
Revenue:					
Net sales		9,026	7,076	17,767	11,643
Research services:					
Up-front payments and initial technology access fees		–	200	–	200
Royalties and licence fees		1	4	3	8
Total revenue		9,027	7,280	17,770	11,851
Operating expenses:					
Cost of sales:					
Cost of goods sold		1,017	937	2,072	1,578
Unallocated production costs		(26)	(19)	(60)	(19)
Royalties		666	–	1,014	–
Research and development expenses		2,134	1,388	4,018	2,508
Selling and market development expenses	3	3,333	2,537	7,236	5,053
General and administrative expenses		1,109	1,013	2,192	2,033
Total operating expenses		8,233	5,856	16,472	11,153
Profit from operating activities		794	1,424	1,298	698
Finance income	4	31	–	59	258
Finance costs	4	(1,323)	(606)	(2,008)	(1,042)
		(1,292)	(606)	(1,949)	(784)
(Loss) profit before income taxes		(498)	818	(651)	(86)
Income tax expense		–	–	–	(10)
Net (loss) profit for the period		(498)	818	(651)	(96)
Other comprehensive income (loss), net of tax:					
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		18	–	(10)	(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		(611)	(38)	(338)	654
		(593)	(38)	(348)	589
Total comprehensive (loss) income for the period		(1,091)	780	(999)	493
(Loss) earnings per share:					
Basic	11 (b)	(0.01)	0.01	(0.01)	0.00
Diluted		(0.01)	0.01	(0.01)	0.00

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)

Six-month periods ended May 31, 2016
(Unaudited)

For the six-month period ended May 31, 2016							
	Note	Share capital		Contributed surplus	Accumulated other comprehensive		Total
		Number of shares	Amount		Deficit	(loss) income	
			\$	\$	\$	\$	\$
Balance as at November 30, 2015		65,615,603	290,994	8,581	(281,077)	1,526	20,024
Total comprehensive loss							
Net loss		-	-	-	(651)	-	(651)
Other comprehensive loss:							
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	(10)	(10)
Exchange differences on translation		-	-	-	-	(338)	(338)
Total comprehensive loss		-	-	-	(651)	(348)	(999)
Transactions with owners, recorded directly in equity							
Share-based compensation for stock option plan		-	-	166	-	-	166
Exercise of stock option:							
Monetary consideration		317,166	221	-	-	-	221
Attributed value		-	138	(138)	-	-	-
Share-based payment	7	-	-	5,215	-	-	5,215
Total contributions by owners		317,166	359	5,243	-	-	5,602
Balance as at May 31, 2016		65,932,769	291,353	13,824	(281,728)	1,178	24,627

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)

Six-month periods ended May 31, 2015
(Unaudited)

For the six-month period ended May 31, 2015						
	Share capital		Contributed surplus	Accumulated other comprehensive income		Total
	Number of shares	Amount		Deficit	Income	
		\$	\$	\$	\$	\$
Balance as at November 30, 2014	61,010,603	280,872	8,313	(281,382)	65	7,868
Total comprehensive (loss) income						
Net loss for the period	-	-	-	(96)	-	(96)
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	-	-	-	-	654	654
Total comprehensive (loss) income	-	-	-	(96)	589	493
Transactions with owners, recorded directly in equity						
Share-based compensation for stock option plan	-	-	40	-	-	40
Total contributions by owners	-	-	40	-	-	40
Balance as at May 31, 2015	61,010,603	280,872	8,353	(281,478)	654	8,401

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)

Six-month periods and three-month periods ended May 31, 2016 and 2015
(Unaudited)

	For the three-month periods ended May 31,		For the six-month periods ended May 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cash provided from (used in):				
Operating:				
Net (loss) profit	(498)	818	(651)	(96)
Adjustments for:				
Depreciation of property and equipment	7	2	10	6
Amortization of intangible assets	491	468	1,016	923
Gain on sale of property and equipment	–	–	–	(21)
Change in deferred revenue	–	7	(1)	6
Share-based compensation for stock option plan	96	25	166	40
Income tax expense	–	–	–	10
(Reversal of) write-down of inventories	(26)	(34)	(26)	(34)
Lease inducements and amortization	–	–	–	(2)
Change in fair value of derivative financial assets	(320)	(165)	(294)	(270)
Change in fair value of liability related to deferred stock unit plan	317	116	291	196
Interest income	(31)	–	(59)	(10)
Interest received	28	–	3	86
Effect of change of foreign exchange	(186)	5	(114)	(55)
Accretion expense	507	635	1,101	1,209
Change in fair value of warrant liability and foreign currency gain	1,023	–	1,023	–
Gain on long-term obligation renegotiation	–	–	–	(188)
	1,408	1,877	2,465	1,800
Changes in operating assets and liabilities				
Trade and other receivables	(1,552)	(1,619)	(2,808)	(1,580)
Inventories	(883)	(627)	(70)	(794)
Prepaid expenses	331	505	301	51
Accounts payable and accrued liabilities	916	175	563	938
Provisions	13	795	171	1,411
	(1,175)	(771)	(1,843)	26
Cash flows from operating activities	233	1,106	622	1,826
Financing				
Repayment of long-term obligation	(5,196)	(619)	(5,196)	(619)
Share issue costs	–	–	(25)	–
Proceeds from exercise of stock options	220	–	220	–
Cash flows used in financing activities	(4,976)	(619)	(5,001)	(619)
Investing				
Acquisition of bonds	–	–	(4,463)	–
Acquisition of intangible assets	(1,491)	–	(1,491)	–
Proceeds from disposal of derivative financial assets	–	133	4	133
Proceeds from sale of property and equipment	–	–	–	68
Acquisition of property and equipment	(14)	–	(20)	–
Proceeds from sale of bonds	–	–	–	2,333
Cash flows (used in) from investing activities	(1,505)	133	(5,970)	2,534
Net change in cash and cash equivalents	(6,248)	620	(10,349)	3,741
Cash and cash equivalents, beginning of period	11,316	3,965	15,350	694
Effect of foreign exchange on cash	(338)	(13)	(271)	137
Cash and cash equivalents, end of period	4,730	4,572	4,730	4,752

Supplemental cash flow information, see Note 12.

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)

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

Theratechnologies Inc. is a specialty pharmaceutical company addressing unmet medical needs to promote healthy ageing 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, 5th 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 July 5, 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.

(i) Cash and cash equivalents

The Company considers all liquid investments with maturities of three months or less from the date of purchase to be cash equivalents.

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

1. Basis of preparation (continued)

(b) Summary of accounting policies (continued)

(ii) 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.

(iii) 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)

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

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*.

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

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

	For the three-month periods ended May 31,	
	2016	2015
	\$	\$
Selling and market development expenses	2,842	2,069
Amortization of intangible assets	491	468
	3,333	2,537

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

3. Selling and market development expenses (continued)

	For the six-month periods ended May 31,	
	2016	2015
	\$	\$
Selling and market development expenses	6,220	4,130
Amortization of intangible assets	1,016	923
	7,236	5,053

4. Finance income and finance costs

	For the three-month periods ended May 31,	
	2016	2015
	\$	\$
Interest income	31	—
Finance income	31	—
Accretion expense	(507)	(635)
Bank charges	(7)	(1)
Net foreign currency gain (expense)	223	(19)
(Loss) gain on financial instruments carried at fair value	(1,032)	49
Finance costs	(1,323)	(606)
Net finance cost recognized in net profit or loss	(1,292)	(606)

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

4. Finance income and finance costs (continued)

	For the six-month periods ended May 31,	
	2016	2015
	\$	\$
Interest income	59	10
Net gain on disposal of available-for-sale financial assets	–	60
Gain on long-term obligation renegotiation	–	188
Finance income	59	258
Accretion expense	(1,101)	(1,209)
Bank charges	(23)	(1)
Net foreign currency gain	148	86
(Loss) gain on financial instrument carried at fair value	(1,032)	82
Finance costs	(2,008)	(1,042)
Net finance cost recognized in net profit or loss	(1,949)	(784)

5. Cash and cash equivalents

	May 31,	November 30,
	2016	2015
	\$	\$
Bank balances	192	15,350
Money market	4,538	–
	4,730	15,350

6. Inventories

In 2016, the Company recorded a reversal of inventory write-down of \$26 on work in progress. It was recorded in cost of sales as unallocated products cost.

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

7. Intangible assets

	Commercialization rights - ibalizumab	Commercialization rights - EGRIFTA®	Total
Cost			
Balance as at November 30, 2015	\$ –	\$ 18,749	\$ 18,749
Additions	6,788	–	6,788
Effect of changes in exchange rates	38	(342)	(304)
Balance as at May 31, 2016	\$ 6,826	\$ 18,407	\$ 25,233
Accumulated amortization			
Balance as at November 30, 2015	\$ –	\$ 3,195	\$ 3,195
Amortization for the period	–	1,101	1,101
	–	4,296	4,296
Effect of changes in exchange rates	–	(169)	(169)
Balance as at May 31, 2016	\$ –	\$ 4,127	\$ 4,127
Carrying amounts			
May 31, 2016	\$ 6,826	\$ 14,280	\$ 21,106
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.

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

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

7. Intangible assets (continued)

Commercialization rights - ibalizumab

On March 18, 2016, the Company entered into a 12-year collaboration agreement with TaiMed Biologics, Inc., or TaiMed, to market and distribute ibalizumab 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 Food and Drug Administration ("FDA") in the United States.

Financial consideration

As per the agreement, the Company will pay an initial payment of US\$5,000 and further several milestone payments in exchange of the right to commercialize the product and use TaiMed trademark related to the licensed product.

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

- (i) US\$1,000 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 at the date of marketing approval; and
- (iv) US\$1,000 in Company's common shares based on the price at 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.

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

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 share capital.

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

7. Intangible assets (continued)

Commercial milestone payments

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

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 instalments
(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 development milestones to TaiMed. A US\$3,000 milestone is due upon the approval of the once every two weeks intramuscular route of administration, payable in two annual installments. TaiMed will also be 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 May 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 development of ibalizumab and 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 net selling price of the product and 10% is added for the first manufactured products until an additional amount of US\$5,500 has been paid.

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

8. Provisions

	Chargebacks and rebates	Returns	Total
	\$	\$	\$
Balance as at November 30, 2015	284	20	304
Provisions made	1,420	41	1,461
Provisions used	(1,289)	–	(1,289)
Effect of changes in the exchange rate	(14)	(1)	(15)
Balance as at May 31, 2016	401	60	461

9. Long-term obligation

	2016
	\$
Early termination fee	12,416
Current portion	(3,725)
Non-current portion as at May 31, 2016	8,691

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%.

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

9. Long-term obligation (continued)

Long-term obligation is payable as follows:

	Capital	Accrued interest	Total
	\$	\$	\$
Less than one year	3,587	1,657	5,244
Between one and five years	8,691	1,797	10,488
	12,278	3,454	15,732

10. 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, 2015	2,300,000	702
Change in fair value of warrant liability	–	1,035
Foreign currency gain	–	(12)
Balance as at May 31, 2016	2,300,000	1,725

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

11. 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 five years. As at May 31, 2016, 2,442,306 options were available to be granted by the Company (May 31, 2015 - 1,238,306).

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	(40,834)	1.81
Forfeited	(20,000)	0.38
Options as at May 31, 2015	2,101,835	2.00
Options as at November 30, 2015	2,092,835	1.98
Granted	535,000	2.01
Expired	(155,000)	2.31
Exercised (share price: \$2.31)	(317,166)	0.70
Options as at May 31, 2016	2,155,669	2.16

During the six-month period ended May 31, 2016, \$166 (2015 - \$40) was recorded as share-based compensation expense for the stock option plan.

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

11. 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 six-month periods ended May 31,	
	2016	2015
Risk-free interest rate	1.13%	1.39%
Expected volatility	76.64%	52.66%
Average option life	8.0 years	8.0 years
Expected dividends	—	—
Grant-date share price	\$2.01	\$1.11
Option exercise price	\$2.01	\$1.11

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.

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

	Number of options	For the three-month periods ended May 31,		
		2016	2015	
		Weighted average grant-date fair value	Number of options	Weighted average grant-date fair value
		\$		\$
Options granted	535,000	1.48	300,000	0.63

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

11. Share capital (continued)

(a) Stock option plan (continued)

	Number of options	For the six-month periods ended May 31,	
		2016	2015
		Weighted average grant-date fair value \$	Weighted average grant-date fair value \$
Options granted	535,000	1.48	0.63

(b) Earnings (loss) per share

For the six-month period ended May 31, 2016, the calculation of basic loss per share was based on the net loss attributable to common shareholders of the Company of \$498 (May 31, 2015 - net profit of \$818), and a weighted average number of common shares outstanding of 65,736,568 (May 31, 2015 - 61,010,603), calculated as follows:

	For the three-month periods ended May 31,	
	2016	2015
Issued common shares as at March 1	65,615,603	61,010,603
Effect of stock options exercised	120,965	–
Weighted average number of common shares	65,736,568	61,010,603

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

11. Share capital (continued)

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

	For the six-month periods ended May 31,	
	2016	2015
Issued common shares as at December 1	65,615,603	61,010,603
Effect of stock options exercised	60,813	–
Weighted average number of common shares	65,676,416	61,010,603

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

	For the three-month periods ended May 31,	
	2016	2015
Weighted average number of common shares	65,736,568	61,010,603
Effect of potential dilutive share options	–	367,733
Weighted average number of diluted common shares	65,736,568	61,378,336

	For the six-month periods ended May 31,	
	2016	2015
Weighted average number of common shares	65,676,416	61,010,603
Weighted average number of diluted common shares	65,676,416	61,010,603

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

11. Share capital (continued)

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

For the three-month period and the six-month period ended May 31, 2016, a number of 2,155,699 share options, 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 May 31, 2015, a number of 836,835 options (for the six-month period ended May 31, 2015 - 2,101,835) 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.

12. Other information

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

	Note	May 31, 2016	November 30, 2015
		\$	\$
Additions to intangible assets included in accounts payable and accrued liabilities and contributed surplus	7	5,273	–
Proceeds from exercise of stock options included in trade and other receivables		1	–
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

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

13. 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.

14. 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%.

THE RATECHNOLOGIES INC.

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

Six-month periods ended May 31, 2016 and 2015
(Unaudited)

14. 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 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).