

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

## **THERATECHNOLOGIES INC.**

Six-month periods ended May 31, 2015 and 2014  
(Unaudited)

# THE RATECHNOLOGIES INC.

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(Unaudited)

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# THE RATECHNOLOGIES INC.

Interim Consolidated Financial Position  
(In thousands of Canadian dollars)

As at May 31, 2015 and November 30, 2014  
(Unaudited)

	Note	May 31, 2015	November 30, 2014
<b>Assets</b>			
Current assets:			
Cash		\$ 4,572	\$ 694
Bonds		–	2,484
Trade and other receivables		4,152	2,359
Inventories	7	12,379	10,618
Prepaid expenses		1,235	1,173
Derivative financial assets		279	126
<b>Total current assets</b>		<b>22,617</b>	<b>17,454</b>
Non-current assets:			
Property and equipment		104	146
Intangible assets		15,427	15,054
<b>Total non-current assets</b>		<b>15,531</b>	<b>15,200</b>
<b>Total assets</b>		<b>\$ 38,148</b>	<b>\$ 32,654</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 8,788	\$ 7,213
Provisions	8	1,889	418
Current portion of long-term obligation	9	7,416	3,682
Deferred revenue		7	1
<b>Total current liabilities</b>		<b>18,100</b>	<b>11,314</b>
Non-current liabilities:			
Other liabilities		–	2
Long-term obligation	9	11,647	13,470
<b>Total non-current liabilities</b>		<b>11,647</b>	<b>13,472</b>
<b>Total liabilities</b>		<b>29,747</b>	<b>24,786</b>
<b>Equity</b>			
Share capital	10	280,872	280,872
Contributed surplus		8,353	8,313
Deficit		(281,478)	(281,382)
Accumulated other comprehensive income		654	65
<b>Total equity</b>		<b>8,401</b>	<b>7,868</b>
Contingent liability	11		
Commitments	12		
<b>Total liabilities and equity</b>		<b>\$ 38,148</b>	<b>\$ 32,654</b>

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

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

	Note	For the three-month periods ended May 31,		For the six-month periods ended May 31,	
		2015	2014	2015	2014
		\$	\$	\$	\$
<b>Revenue:</b>					
Net sales		7,076	–	11,643	675
<b>Research services:</b>					
Up-front payments and initial technology access fees	4	200	2,450	200	2,770
Royalties and licence fees		4	(57)	8	620
<b>Total revenue</b>		<b>7,280</b>	<b>2,393</b>	<b>11,851</b>	<b>4,065</b>
<b>Operating expenses:</b>					
<b>Cost of sales:</b>					
Cost of goods sold		937	–	1,578	600
Unallocated production costs		(19)	14	(19)	1,039
Research and development expenses		1,388	2,121	2,508	3,417
Selling and market development expenses	5	2,537	2,148	5,053	3,527
General and administrative expenses		1,013	1,370	2,033	2,340
<b>Total operating expenses</b>		<b>5,856</b>	<b>5,653</b>	<b>11,153</b>	<b>10,923</b>
<b>Profit (loss) from operating activities</b>		<b>1,424</b>	<b>(3,260)</b>	<b>698</b>	<b>(6,858)</b>
Finance income	6	–	123	258	228
Finance costs	6	(606)	46	(1,042)	13
Federal investment tax credits		–	4,110	–	4,110
		(606)	4,279	(784)	4,351
Profit (loss) before income taxes		818	1,019	(86)	(2,507)
Income tax expense		–	(12)	(10)	(20)
<b>Net profit (loss) for the period</b>		<b>818</b>	<b>1,007</b>	<b>(96)</b>	<b>(2,527)</b>
<b>Other comprehensive income (loss), net of tax:</b>					
Items that may be reclassified to profit (loss) in the future:					
Net change in fair value of available-for-sale financial assets, net of tax		–	(18)	(5)	(43)
Net change in fair value of available-for-sale financial assets transferred to net profit (loss), net of tax		–	(65)	(60)	(90)
Exchange differences on translation		(38)	–	654	–
		(38)	(83)	589	(133)
<b>Total comprehensive income (loss) for the period</b>		<b>780</b>	<b>924</b>	<b>493</b>	<b>(2,660)</b>
<b>Earnings (loss) per share:</b>					
Basic	10	0.01	0.02	–	(0.04)
Diluted		0.01	0.02	–	(0.04)

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 May 31, 2015 and 2014  
(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	
		\$	\$	\$	\$	\$
<b>Balance as at November 30, 2014</b>	61,010,603	280,872	8,313	(281,382)	65	7,868
<b>Total comprehensive loss for the period</b>						
Net loss for the period	-	-	-	(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
<b>Total comprehensive (loss) income for the period</b>	-	-	-	(96)	589	493
<b>Transactions with owners, recorded directly in equity</b>						
Share-based compensation for stock option plan	-	-	40	-	-	40
<b>Total contributions by owners</b>	-	-	40	-	-	40
<b>Balance as at May 31, 2015</b>	<b>61,010,603</b>	<b>280,872</b>	<b>8,353</b>	<b>(281,478)</b>	<b>654</b>	<b>8,401</b>

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 May 31, 2015 and 2014  
(Unaudited)

For the six-month period ended May 31, 2014						
	Share capital		Contributed surplus	Accumulated other comprehensive income		Total
	Number of shares	Amount		Deficit	Income	
		\$	\$	\$	\$	\$
<b>Balance as at November 30, 2013</b>	61,010,603	280,872	8,232	(270,841)	265	18,528
<b>Total comprehensive loss for the period</b>						
Net loss for the period	-	-	-	(2,527)	-	(2,527)
Other comprehensive loss						
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(43)	(43)
Net change in fair value of available-for-sale financial assets transferred to net profit, net of tax	-	-	-	-	(90)	(90)
<b>Total comprehensive loss for the period</b>	-	-	-	(2,527)	(133)	(2,660)
<b>Transactions with owners, recorded directly in equity</b>						
Share-based compensation for stock option plan	-	-	40	-	-	40
<b>Total contributions by owners</b>	-	-	40	-	-	40
<b>Balance as at May 31, 2014</b>	<b>61,010,603</b>	<b>280,872</b>	<b>8,272</b>	<b>(273,368)</b>	<b>132</b>	<b>15,908</b>

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

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

	Note	For the three-month periods ended May 31,		For the six-month periods ended May 31,	
		2015	2014	2015	2014
		\$	\$	\$	\$
<b>Cash provided from (used in):</b>					
<b>Operating activities:</b>					
Net profit (loss)		818	1,007	(96)	(2,527)
Adjustments for					
Depreciation of property and equipment		2	14	6	28
Amortization of intangible assets		468	144	923	144
Gain on sale of property and equipment		–	–	(21)	–
Change in deferred revenue		7	(2,454)	6	(2,765)
Share-based compensation for stock option plan		25	21	40	40
Income tax		–	12	10	20
(Reversal of) writedown of inventories	7	(34)	–	(34)	936
Lease inducements and amortization		–	(8)	(2)	(16)
Change in fair value of derivative financial assets		(165)	(2)	(270)	(58)
Change in fair value of liability related to deferred stock unit plan		116	1	196	62
Interest income		–	(58)	(10)	(138)
Interest received		–	74	86	202
Effect of change of foreign exchange		5	–	(55)	–
Accretion expense		635	170	1,209	170
Unrealized foreign currency gain on long-term obligation		–	(166)	–	(166)
Gain on long-term obligation renegotiation		–	–	(188)	–
		1,877	(1,245)	1,800	(4,068)
Changes in operating assets and liabilities					
Trade and other receivables		(1,619)	145	(1,580)	337
Tax credits and grants receivable		–	(4,170)	–	(4,170)
Inventories		(627)	(131)	(794)	(75)
Prepaid expenses		505	(462)	51	(500)
Accounts payable and accrued liabilities		175	2,389	938	2,697
Provisions		795	–	1,411	–
		(771)	(2,229)	26	(1,711)
<b>Cash flows from (used in) operating activities</b>		1,106	(3,474)	1,826	(5,779)
<b>Financing activities</b>					
Repayment of long-term obligation		(619)	–	(619)	–
<b>Cash flows used in financing activities</b>		(619)	–	(619)	–
<b>Investing activities</b>					
Acquisition of intangible assets		–	(487)	–	(828)
Proceeds from sale of property and equipment		–	–	68	–
Proceeds from sale of bonds		–	4,034	2,333	5,927
Proceeds from disposal of derivative financial assets		133	–	133	23
<b>Cash flows from investing activities</b>		133	3,547	2,534	5,122
<b>Net change in cash</b>		620	73	3,741	(657)
<b>Cash, beginning of period</b>		3,965	237	694	967
Effect of foreign exchange on cash		(13)	–	137	–
<b>Cash, end of period</b>		4,572	310	4,752	310

Supplemental cash flow information see Note 13.

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 May 31, 2015 and 2014  
(Unaudited)

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## 1. The reporting entity and its future operations

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

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

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

## 2. 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, 2014 and the notes thereto. These interim financial statements have not been reviewed by the Company’s auditors.

These interim consolidated financial statements have been authorized for issue by the Company’s Audit Committee on July 13, 2015.

### (b) Summary of accounting policies

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

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



# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

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## 2. Basis of preparation (continued)

### (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 derivative financial liabilities, 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 period.

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

### (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.

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

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### 3. Recent changes in accounting standards

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

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

##### *IFRS 9, Financial Instruments*

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

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

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

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

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

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

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

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

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## 4. Revenue

### AOP Orphan Pharmaceuticals

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

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

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

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

## 5. Selling and market development expenses

	For the three-month periods ended May 31,	
	2015	2014
	\$	\$
Implementation fees	21	785
Selling and market development expenses	2,048	1,219
Amortization of intangible assets	468	144
	2,537	2,148

	For the six-month periods ended May 31,	
	2015	2014
	\$	\$
Implementation fees	46	1,691
Selling and market development expenses	4,084	1,692
Amortization of intangible assets	923	144
	5,053	3,527

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

## 6. Finance income and finance costs

	For the three-month periods ended May 31,	
	2015	2014
	\$	\$
Interest income	–	58
Net gain on disposal of available-for-sale financial assets	–	65
Finance income	–	123
Accretion expense (note 9)	(635)	(170)
Bank charges	(1)	–
Net foreign currency (expense) gain	(19)	50
Unrealized foreign currency gain on long-term obligation	–	166
Gain on financial instruments carried at fair value	49	–
Finance costs	(606)	46
Net finance (loss) income recognized in net profit (loss)	(606)	169

	For the six-month periods ended May 31,	
	2015	2014
	\$	\$
Interest income	10	138
Net gain on disposal of available-for-sale financial assets	60	90
Gain on long-term obligation renegotiation	188	–
Finance income	258	228
Accretion expense (note 9)	(1,209)	(170)
Bank charges	(1)	(3)
Net foreign currency gain	86	30
Unrealized foreign currency gain on long-term obligation	–	166
Gain (loss) on financial instrument carried at fair value	82	(10)
Finance costs	(1,042)	13
Net finance (loss) income recognized in net profit (loss)	(784)	241

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

## 7. Inventories

In 2015, the Company recorded an inventory provision of \$9 on raw materials and a reversal of inventory write-down of \$43 (provision of \$936 in 2014) on work in progress. The net reversal of provision of \$34 in 2015 (provision of \$936 in 2014) was recorded in cost of sales as unallocated products cost.

## 8. Provisions

	Chargebacks and rebates	Returns	Total
	\$	\$	\$
<b>Balance as at November 30, 2014</b>	374	44	418
Provisions made during the period	1,740	34	1,774
Provisions used during the period	(302)	(1)	(303)
<b>Balance as at May 31, 2015</b>	<b>1,812</b>	<b>77</b>	<b>1,889</b>

## 9. Long-term obligation

	2015
	\$
Early termination fee	19,063
Current portion	7,416
<b>Non-current portion as at May 31, 2015</b>	<b>11,647</b>

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

## 9. Long-term obligation (continued)

Under the terms of the EMD Serono Termination Agreement, the Company agreed to pay an early termination fee of US\$20,000 (the "Early Termination Fee") evenly over a five-year period starting on May 1, 2015. In light of the delay in the commercialization of *EGRIFTA*<sup>TM</sup> caused by the supply problems incurred in 2014, the Company restructured the amount and payment terms of the initial long-term obligation payment, which was due on May 1, 2015. Under the new terms, the first payment will total US\$4,168 (previously US\$4,000) and will be paid in three unequal installments as follows: US\$500 has been paid on May 1, 2015; US\$1,551 will be paid on August 31, 2015; and US\$2,117 will be paid on November 30, 2015. The remaining annual payments of US\$4,000 are unchanged and are due on May 1 of each year beginning on May 1, 2016 up to May 1, 2019, bringing the total Early Termination Fee to US\$20,168.

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

Long-term obligation is payable as follows:

	Capital	Accrued interest	Total
	\$	\$	\$
Less than one year	7,203	2,333	9,536
Between one and five years	11,647	3,277	14,924
	18,850	5,610	24,460

## 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 5,000,000 options can be granted under the plan. Generally, the options vest at the date of the grant or over a period of up to five years. As at May 31, 2015, 1,238,306 options were available to be granted by the Company (May 31, 2014 -1,477,472).

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

## 10. Share capital (continued)

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

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, 2013	1,875,837	2.30
Granted	125,000	0.50
Expired	(15,000)	3.68
Forfeited	(12,368)	3.12
Options as at May 31, 2014	1,862,669	2.13
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

During the six-month period ended May 31, 2015, \$40 (2014 - \$19) was recorded as share-based compensation expense for the stock option plan. The fair value of options granted was estimated at the grant date using the Black-Scholes model and the following weighted average assumptions:

	For the six-month periods ended May 31,	
	2015	2014
Risk-free interest rate	1.39%	1.97%
Expected volatility	52.66%	82.22%
Average option life	8.0 years	7.5 years
Expected dividends	Nil	Nil
Grant-date share price	\$1.11	\$0.39
Option exercise price	\$1.11	\$0.39



# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

## 10. Share capital (continued)

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

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:

		For the three-month periods ended May 31,	
		2015	2014
	Number of options	Weighted average grant-date fair value	Number of options
		\$	\$
Options granted	300,000	0.63	–

		For the six-month periods ended May 31,	
		2015	2014
	Number of options	Weighted average grant-date fair value	Number of options
		\$	\$
Options granted	300,000	0.63	125,000

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

## 10. Share capital (continued)

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

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

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

For the six-month period ended May 31, 2015, the calculation of basic earnings (loss) per share was based on the net loss attributable to common shareholders of the Company of \$(96) (May 31, 2014 - \$(2,527)), and a weighted average number of common shares outstanding of 61,010,603 (May 31, 2014 - 61,010,603), calculated as follows:

	<b>For the three-month periods ended May 31,</b>	
	<b>2015</b>	<b>2014</b>
Issued common shares as at March 1	61,010,603	61,010,603
Weighted average number of common shares	61,010,603	61,010,603

	<b>For the six-month periods ended May 31,</b>	
	<b>2015</b>	<b>2014</b>
Issued common shares as at December 1	61,010,603	61,010,603
Weighted average number of common shares	61,010,603	61,010,603

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

## 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 May 31,</b>	
	<b>2015</b>	<b>2014</b>
Weighted average number of common shares	61,010,603	61,010,603
Effect of potential dilutive share options	367,733	22,228
<b>Weighted average number of diluted common shares</b>	<b>61,378,336</b>	<b>61,032,831</b>

	<b>For the six-month periods ended May 31,</b>	
	<b>2015</b>	<b>2014</b>
Weighted average number of common shares	61,010,603	61,010,603
<b>Weighted average number of diluted common shares</b>	<b>61,010,603</b>	<b>61,010,603</b>

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.

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

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

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## 11. Contingent liability

On April 17, 2015, the Company announced that the Supreme Court of Canada granted its appeal and dismissed 121851 Canada Inc.'s motion for leave to commence an action against the Company, a director, and a former president and chief executive officer, based on the secondary market liability provisions of the *Securities Act* (Québec). On May 15, 2015, the Company announced that the Superior Court of Québec had authorized the discontinuation of all the related class action proceedings, which occurred on May 19, 2015. There is no longer any threat of litigation in this matter.

## 12. Commitments

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

## 13. Other information

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

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	May 31, 2015	November 30, 2014
	\$	\$
Additions to intangible assets included in long-term obligation	–	15,235

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## 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.

# THE RATECHNOLOGIES INC.

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

Periods ended May 31, 2015 and 2014  
(Unaudited)

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## 14. Determination of fair values (continued)

### 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.

### Other financial assets and financial liabilities

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

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

### Share-based payment transactions

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