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

THERATECHNOLOGIES INC.

Nine-month periods ended August 31, 2015 and 2014
(Unaudited)

THERATECHNOLOGIES INC.

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(Unaudited)

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THERATECHNOLOGIES INC.

Interim Consolidated Financial Positions
(In thousands of Canadian dollars)

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

	Note	August 31, 2015	November 30, 2014
Assets			
Current assets:			
Cash		$ 15,178	$ 694
Bonds		–	2,484
Trade and other receivables		6,043	2,359
Inventories	7	12,783	10,618
Prepaid expenses		1,489	1,173
Derivative financial assets		452	126
Total current assets		35,945	17,454
Non-current assets:			
Property and equipment		107	146
Intangible assets		15,823	15,054
Total non-current assets		15,930	15,200
Total assets		$ 51,875	$ 32,654
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		$ 10,295	$ 7,213
Provisions	8	2,469	418
Current portion of long-term obligation	9	6,478	3,682
Deferred revenue		83	1
Total current liabilities		19,325	11,314
Non-current liabilities:			
Other liabilities		–	2
Long-term obligation	9	12,321	13,470
Warrant liability	10	1,035	–
Total non-current liabilities		13,356	13,472
Total liabilities		32,681	24,786
Equity			
Share capital	11	290,994	280,872
Contributed surplus		8,535	8,313
Deficit		(281,565)	(281,382)
Accumulated other comprehensive income		1,230	65
Total equity		19,194	7,868
Contingent liability	12		
Commitments	13		
Total liabilities and equity		$ 51,875	$ 32,654

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

THERATECHNOLOGIES INC.

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

Periods ended August 31, 2015 and 2014
(Unaudited)

	Note	For the three-month periods ended August 31, 2015	2014	For the nine-month periods ended August 31, 2015	2014
		$	$	$	$
Revenue:					
Net sales		9,189	–	20,832	675
Research services:					
Up-front payments and initial technology access fees	4	–	–	200	2,770
Royalties and licence fees		4	4	12	624
Total revenue		9,193	4	21,044	4,069
Operating expenses:					
Cost of sales:					
Cost of goods sold		1,250	–	2,828	600
Unallocated production costs		54	212	35	1,251
Research and development expenses		1,471	1,036	3,979	4,453
Selling and market development expenses	5	3,525	1,720	8,578	5,247
General and administrative expenses		865	914	2,898	3,254
Total operating expenses		7,165	3,882	18,318	14,805
Profit (loss) from operating activities		2,028	(3,878)	2,726	(10,736)
Finance income	6	4	66	262	294
Finance costs	6	(853)	(574)	(1,895)	(561)
Federal investment tax credits		–	–	–	4,110
		(849)	(508)	(1,633)	3,843
Profit (loss) before income taxes		1,179	(4,386)	1,093	(6,893)
Income tax expense		–	(8)	(10)	(28)
Net profit (loss) for the period		1,179	(4,394)	1,083	(6,921)
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		–	(27)	(5)	(70)
Net change in fair value of available-for-sale financial assets transferred to net profit (loss), net of tax		–	(22)	(60)	(112)
Exchange differences on translation		576	–	1,230	–
		576	(49)	1,165	(182)
Total comprehensive income (loss) for the period		1,755	(4,443)	2,248	(7,103)
Earnings (loss) per share:	11				
Basic		0.02	(0.07)	0.02	(0.11)
Diluted		0.02	(0.07)	0.02	(0.11)

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

THERATECHNOLOGIES INC.

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

Periods ended August 31, 2015 and 2014
(Unaudited)

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

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

THERATECHNOLOGIES INC.

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

Periods ended August 31, 2015 and 2014
(Unaudited)

	For the nine-month period ended August 31, 2014					
	Share capital					
	Number of shares	Amount	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
		$	$	$	$	$
Balance as at November 30, 2013	61,010,603	280,872	8,232	(270,841)	265	18,528
Total comprehensive loss for the period						
Net loss for the period	–	–	–	(6,921)	–	(6,921)
Other comprehensive loss						
Net change in fair value of available-for-sale financial assets, net of tax	–	–	–	–	(70)	(70)
Net change in fair value of available-for-sale financial assets transferred to net profit, net of tax	–	–	–	–	(112)	(112)
Total comprehensive loss for the period	–	–	–	(6,921)	(182)	(7,103)
Transactions with owners, recorded directly in equity						
Share-based compensation for stock option plan	–	–	61	–	–	61
Total contributions by owners	–	–	61	–	–	61
Balance as at August 31, 2014	**61,010,603**	**280,872**	**8,293**	**(277,762)**	**83**	**11,486**

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

THERATECHNOLOGIES INC.

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

Periods ended August 31, 2015 and 2014
(Unaudited)

	For the three-month periods ended August 31,		For the nine-month periods ended August 31,	
	2015	2014	2015	2014
	$	$	$	$
Cash provided from (used in):				
Operating activities:				
Net profit (loss)	1,179	(4,394)	1,083	(6,921)
Adjustments for:				
Depreciation of property and equipment	3	14	9	42
Amortization of intangible assets	483	432	1,406	576
Gain on sale of property and equipment	–	–	(21)	–
Change in deferred revenue	73	(3)	79	(2,768)
Share-based compensation for stock option plan	62	21	102	61
Change in fair value of warrant liability and exchange loss	101	–	101	–
Fair value of broker warrants expensed	11	–	11	–
Income tax	–	8	10	28
Writedown of inventories	45	51	11	987
Lease inducements and amortization	–	(138)	(2)	(154)
Change in fair value of derivative financial assets	(173)	(37)	(443)	(95)
Change in fair value of liability related to deferred stock unit plan	173	37	369	99
Interest income	(4)	(44)	(14)	(182)
Interest received	4	67	90	269
Effect of change of foreign exchange	(37)	–	(92)	–
Accretion expense	654	508	1,863	678
Unrealized foreign currency loss (gain) on long-term obligation	–	45	–	(121)
Gain on long-term obligation renegotiation	–	–	(188)	–
	2,574	(3,433)	4,374	(7,501)
Changes in operating assets and liabilities				
Trade and other receivables	(1,605)	72	(3,185)	409
Tax credits and grants receivable	–	4,170	–	–
Inventories	259	(396)	(535)	(471)
Prepaid expenses	(177)	161	(126)	(339)
Accounts payable and accrued liabilities	518	(418)	1,456	2,279
Provisions	458	–	1,869	–
	(547)	3,589	(521)	1,878
Cash flows from (used in) operating activities	2,027	156	3,853	(5,623)
Financing activities:				
Repayment of long-term obligation	(1,983)	–	(2,602)	–
Proceeds from issue of warrants	934	–	934	–
Proceeds from issue of common shares	10,106	–	10,106	–
Share issue costs	(753)	–	(753)	–
Proceeds from exercise of stock options	9	–	9	–
Cash flows from financing activities	8,313	–	7,694	–
Investing activities:				
Acquisition of intangible assets	–	–	–	(828)
Proceeds from sale of property and equipment	–	–	68	–
Proceeds from sale of bonds	–	2,057	2,333	7,984
Proceeds from disposal of derivative financial assets	–	–	133	23
Cash flows from investing activities	–	2,057	2,534	7,179
Net change in cash	10,340	2,213	14,081	1,556
Cash, beginning of period	4,572	310	694	967
Effect of foreign exchange on cash	266	–	403	–
Cash, end of period	15,178	2,523	15,178	2,523

Supplemental cash flow information, see Note 14.

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

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 financial statements have been authorized for issue by the Company's Audit Committee on September 30, 2015.

(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, 2014.

(c) Compound financial instruments

The financial liability component of a compound financial instrument is recognized initially at the fair value of a standalone instrument without an equity feature. The equity component is recognized initially at a value determined as the excess of the face value of the compound financial instrument less the fair value of the liability component.

2. Basis of preparation (continued)

(d) Share capital

(i) Common shares

Common shares are classified as equity.

(ii) Warrants

Warrants issued in the functional currency of the Company are classified as equity.

Warrants issued in a currency that is not the functional currency of the Company are classified as a warrant liability.

(iii) Transaction costs

Costs directly attributable to the issue of common shares and warrants are recognized on a pro rata basis as a reduction of common shares and warrants as applicable, net of any tax effects, except for those costs attributable to warrants classified as a warrant liability where such costs are expensed in profit or loss.

(e) 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.

(f) 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.

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.

2. Basis of preparation (continued)

(g) 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.

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.

3. Recent changes in accounting standards (continued)

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

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.

4. Revenue

AOP Orphan Pharmaceuticals

In February 2015, the Company entered into a distribution and licensing agreement with AOP Orphan Pharmaceuticals AG ("AOP") for the distribution and commercialization of *EGRIFTA*^{R} in several European countries (the "Territory").

Under the terms of the agreement, AOP will be responsible to conduct all regulatory activities to obtain marketing authorizations for *EGRIFTA*^{R} on a country-by-country basis in the Territory. Prior to receiving such marketing authorizations, AOP intends to distribute *EGRIFTA*^{R} in the Territory through Named Patient Sales Programs.

4. Revenue (continued)

AOP Orphan Pharmaceuticals (continued)

The Company will be responsible for the manufacture of *EGRIFTA*R and its supply to AOP at a predetermined transfer price. Moreover, AOP will pay royalties on net sales of *EGRIFTA*R 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*R in the Territory. An up-front payment of 150 euros was associated with the execution of the agreement and has been received on March 19, 2015. Including that up-front 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*R in each country or February 25, 2025, whichever is later.

BL&H Co., Ltd.

In August 2015, the Company entered into a distribution and licensing agreement with BL&H Co., Ltd. ("BL&H") for the distribution and commercialization of *EGRIFTA*R in South Korea.

Under the terms of the agreement, BL&H will be responsible to conduct all regulatory activities to obtain marketing authorizations for *EGRIFTA*R in South Korea. Until then, BL&H intends to distribute *EGRIFTA*R in this territory through Named Patient Sales Programs.

The Company will be responsible for the manufacture of *EGRIFTA*R and its supply to BL&H at a predetermined transfer price. Milestone payments could potentially reach a total of US$100. The agreement has a 10-year term.

5. Selling and market development expenses

	For the three-month periods ended August 31,	
	2015	**2014**
	$	**$**
Implementation fees	24	106
Selling and market development expenses	3,018	1,182
Amortization of intangible assets	483	432
	3,525	1,720

5. Selling and market development expenses (continued)

	For the nine-month periods ended August 31,	
	2015	**2014**
	$	**$**
Implementation fees	70	1,797
Selling and market development expenses	7,102	2,874
Amortization of intangible assets	1,406	576
	8,578	5,247

6. Finance income and finance costs

	For the three-month periods ended August 31,	
	2015	**2014**
	$	**$**
Interest income	4	44
Net gain on disposal of available-for-sale financial assets	–	22
Finance income	4	66
Accretion expense (note 9)	(654)	(508)
Bank charges	–	(1)
Net foreign currency gain (expense)	11	(20)
Unrealized foreign currency expense on long-term obligation	–	(45)
Change in fair value of warrant liability	(95)	–
Issuance costs related to warrant liability	(115)	–
Finance costs	(853)	(574)
Net finance loss recognized in net profit (loss)	(849)	(508)

6. Finance income and finance costs (continued)

	For the nine-month periods ended August 31,	
	2015	**2014**
	$	**$**
Interest income	14	182
Net gain on disposal of available-for-sale financial assets	60	112
Gain on long-term obligation renegotiation	188	–
Finance income	262	294
Accretion expense (note 9)	(1,863)	(678)
Bank charges	(1)	(4)
Net foreign currency gain	97	10
Unrealized foreign currency gain on long-term obligation	–	121
Gain (loss) on financial instrument carried at fair value	82	(10)
Change in fair value of warrant liability	(95)	–
Issuance costs related to warrant liability	(115)	–
Finance costs	(1,895)	(561)
Net finance loss recognized in net profit (loss)	(1,633)	(267)

7. Inventories

In 2015, the Company recorded an inventory provision of $54 on raw materials ($122 in 2014) and a reversal of inventory write-down of $43 (provision of $865 in 2014) on work in progress. The net reversal of provision of $11 in 2015 (provision of $987 in 2014) was recorded in cost of sales as unallocated products cost.

8. Provisions

	Chargebacks and rebates	Returns	Total
	$	$	$
Balance as at November 30, 2014	374	44	418
Provisions made during the period	2,591	59	2,650
Provisions used during the period	(534)	(1)	(535)
Provisions reversed during the period	(64)	–	(64)
Balance as at August 31, 2015	2,367	102	2,469

9. Long-term obligation

	2015
	$
Early termination fee	18,799
Current portion	6,478
Non-current portion as at August 31, 2015	12,321

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") evenly over a five-year period starting on May 1, 2015. In light of the delay in the commercialization of *EGRIFTA*R 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 has been 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.

9. Long-term obligation (continued)

Long-term obligation is payable as follows:

	Capital	Accrued interest	Total
	$	$	$
Less than one year	6,478	1,571	8,049
Between one and five years	12,321	3,467	15,788
	18,799	5,038	23,837

10. Warrant liability

On August 6, 2015, the Company closed a public offering of 4,600,000 units (Note 11 (a)), 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. Transaction costs attributable to warrants classified as a warrant liability amounted to $115 and were included in finance costs in the interim consolidated statements of comprehensive income (loss). Details related to the warrant liability are summarized below:

	Number of warrants	Liability amount
		$
Balance as at May 31, 2015	–	–
Issued in public offering	2,300,000	934
Change in fair value of warrant liability	–	95
Foreign currency loss	–	6
Balance as at August 31, 2015	2,300,000	1,035

11. Share capital

(a) Public offering

On August 6, 2015, the Company closed a public offering of 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. The Company also issued broker warrants to the underwriters to purchase an equivalent number of units.

Details are summarized in the table below:

Issue price per unit	$2.40
Number of common shares issued	4,600,000
Number of warrants issued	2,300,000
Warrants exercise price	$3.00
Number of broker warrants issued	184,000
Broker warrant exercise price	$2.40
Warrant term in months	24
Broker warrant term in months	18
Cash proceeds summary:	
Gross proceeds	$11,040
Unit cash issuance costs	$1,254
Net cash proceeds on issuance	$9,786
Fair value of broker warrants	$127
Total transaction costs	$1,381
Proceeds allocated to common shares	$10,106
Share issue costs	$1,266
Proceeds allocated to warrant liability (note 10)	$934
Transaction costs related to warrant liability (note 10)	$115

The fair value of the common share purchase warrants was determined using the volume-weighted average quoted price. Broker warrants were valued using a binominal valuation model.

11. Share capital (continued)

(a) Public offering (continued)

A summary of the assumptions used in the valuation model for the broker warrants is set out below:

Common share market price	$2.29
Risk free interest rate	0.436%
Expected dividends	–
Estimated common share price volatility	47.95%
Estimated life in years	1.5

(b) 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 August 31, 2015, 1,242,306 options were available to be granted by the Company (August 31, 2014 - 1,477,472).

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

11. Share capital (continued)

(b) Stock option plan (continued)

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
Forfeited	(138,168)	3.18
Options as at August 31, 2014	1,862,669	2.12
Options as at November 30, 2014	1,862,669	2.12
Granted	300,000	1.11
Expired	(44,834)	2.39
Forfeited	(20,000)	0.38
Exercised	(5,000)	1.80
Options as at August 31, 2015	2,092,835	1.98

During the nine-month period ended August 31, 2015, $102 (2014 - $61) 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 nine-month periods ended August 31,	
	2015	2014
Risk-free interest rate	1.39%	1.97%
Expected volatility	52.66%	82.22%
Average option life	8 years	7.5 years
Expected dividends	–	–
Grant-date share price	$1.11	$0.39
Option exercise price	$1.11	$0.39

11. Share capital (continued)

(b) 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 nine-month periods ended August 31,	
		2015		2014
	Number of options	Weighted average grant-date fair value	Number of options	Weighted average grant-date fair value
		$		$
Options granted	300,000	0.63	125,000	0.36

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.

11. Share capital (continued)

(c) Earnings (loss) per share

For the nine-month period ended August 31, 2015, the calculation of basic earnings (loss) per share was based on the net profit (loss) attributable to common shareholders of the Company of $1,083 (August 31, 2014 - $(6,921)), and a weighted average number of common shares outstanding of 61,447,957 (August 31, 2014 - 61,010,603), calculated as follows:

	For the three-month periods ended August 31,	
	2015	**2014**
Issued common shares as at June 1	61,010,603	61,010,603
Effect of share options exercised	2,554	–
Effect of public issue of common shares	1,300,000	–
Weighted average number of common shares	62,313,157	61,010,603

	For the nine-month periods ended August 31,	
	2015	**2014**
Issued common shares as at June 1	61,010,603	61,010,603
Effect of share options exercised	858	–
Effect of public issue of common shares	436,496	–
Weighted average number of common shares	61,447,957	61,010,603

11. Share capital (continued)

(c) 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:

	For the three-month periods ended August 31,	
	2015	**2014**
Weighted average number of common shares	62,313,157	61,010,603
Effect of potential dilutive share options	801,084	–
Weighted average number of diluted common shares	63,114,241	61,010,603

	For the nine-month periods ended August 31,	
	2015	**2014**
Weighted average number of common shares	61,447,957	61,010,603
Effect of potential dilutive share options	622,776	–
Weighted average number of diluted common shares	62,070,733	61,010,603

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

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.

12. 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.

13. 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 and BL&H (Note 4) have been introduced by the consultant.

14. Other information

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

	August 31, 2015	November 30, 2014
	$	$
Additions to intangible assets included in long-term obligation	–	15,235
Share issue costs included in accounts payable and accrued liabilities	397	–

15. Financial instruments

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, 2014, except for the following:

Currency risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates. Since the change of functional currency effective December 1, 2015 (Note 2 (g)), currency risk is limited to the portion of the Company's business transactions denominated in currencies other than US dollars, primarily cash, sale of goods and expenses incurred in Canadian dollars.

From time to time, the Company enters into forward foreign exchange contracts. No forward foreign exchange contract was outstanding as at August 31, 2015 or November 30, 2014.

Exchange rate fluctuations for foreign currency transactions can cause cash flows as well as amounts recorded in the interim consolidated statements of comprehensive income (loss) to vary from period to period and not necessarily correspond to those forecasted in operating budgets and projections. Additional earnings variability arises from the translation of monetary assets and liabilities denominated in currencies other than the US dollar at the rates of exchange at each consolidated statement of financial position date, the impact of which is reported as foreign exchange gain or loss in the interim consolidated statements of comprehensive income (loss). The Company does not believe a sudden change in foreign exchange rates would impair or enhance its ability to pay its Canadian dollar denominated obligations.

16. 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.

16. 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.

Warrant liability

The warrant liability is recognized at fair value and is considered Level 1 in the fair value hierarchy for financial instruments.