Theratechnologies Inc.

Consolidated Financial Statements
November 30, 2013, 2012 and 2011
(in thousands of Canadian dollars)

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Independent Auditors' Report of Registered Public Accounting Firm

To the Shareholders of
Theratechnologies Inc.

We have audited the accompanying consolidated financial statements of Theratechnologies Inc., which comprise the consolidated statements of financial position as at November 30, 2013 and November 30, 2012, the consolidated statements of comprehensive loss, changes in equity and cash flows for each of the years in the three-year period ended November 30, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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KPMG Canada provides services to KPMG LLP.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Theratechnologies Inc. as at November 30, 2013 and November 30, 2012, and its consolidated financial performance and its consolidated cash flows for each of the years in the three-year period ended November 30, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP *

February 26, 2014

Montreal, Canada

* CPA auditor, CA, public accountancy permit No. A111162

Theratechnologies Inc.

Consolidated Statements of Financial Position

As at November 30, 2013 and 2012

(in thousands of Canadian dollars)

	Note	2013 $	2012 $
Assets			
Current assets			
Cash		967	1,512
Bonds	9	99	149
Trade and other receivables	10	489	1,168
Tax credits and grants receivable	11	-	421
Inventories	12	10,995	12,789
Prepaid expenses		404	970
Derivative financial assets	16(b)	106	79
Total current assets		13,060	17,088
Non-current assets			
Bonds	9	11,287	18,842
Property and equipment	13	281	402
Other assets		216	-
Total non-current assets		11,784	19,244
Total assets		24,844	36,332
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	14	3,371	3,339
Provisions	20(b)	-	1,211
Current portion of deferred revenue	5	1,279	1,854
Total current liabilities		4,650	6,404
Non-current liabilities			
Provisions	20(b)	-	4,415
Other liabilities	15	174	216
Deferred revenue	5	1,492	2,627
Total non-current liabilities		1,666	7,258
Total liabilities		6,316	13,662
Equity			
Share capital	16	280,872	280,872
Contributed surplus		8,232	8,158
Deficit		(270,841)	(266,786)
Accumulated other comprehensive income		265	426
Total equity		18,528	22,670
Total liabilities and equity		24,844	36,332
Contingent liability	19		
Commitments	24		
Subsequent events	27		

Approved by the Board of Directors,

(signed) Paul Pommier
Director

(signed) Jean-Denis Talon
Director

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

Theratechnologies Inc.

Consolidated Statements of Comprehensive Loss

For the years ended November 30, 2013, 2012 and 2011

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

	Note	2013 $	2012 $	2011 $
Revenue				
Sale of goods	5	2,544	5,235	8,351
Research services				
Up-front payments and initial technology access fees	5	1,710	4,077	5,134
Royalties and licence fees	5	3,299	4,255	1,443
		7,553	13,567	14,928
Operating expenses				
Cost of sales				
Cost of goods sold		2,262	4,711	8,040
Unallocated production costs	7	1,449	345	1,106
		3,711	5,056	9,146
Research and development expenses, net of tax credits of $141 (2012 – $692; 2011 – $957)	11	7,371	6,341	10,992
Selling and market development expenses		250	852	2,019
General and administrative expenses		3,815	5,462	10,823
Restructuring costs	20(b)	(3,111)	10,702	716
		12,036	28,413	33,696
Loss from operating activities		(4,483)	(14,846)	(18,768)
Finance income	8	541	890	1,602
Finance costs	8	(87)	21	(636)
		454	911	966
Loss before income taxes		(4,029)	(13,935)	(17,802)
Income tax expense (recovery)	17	26	5	(72)
Net loss for the year		(4,055)	(13,940)	(17,730)
Other comprehensive loss, net of tax				
Items that may be reclassified to loss in the future:				
Net change in fair value of available-for-sale financial assets, net of tax		(75)	100	121
Net change in fair value of available-for-sale financial assets transferred to net loss, net of tax		(86)	(133)	(228)
		(161)	(33)	(107)
Total comprehensive loss for the year		(4,216)	(13,973)	(17,837)
Basic and diluted net loss per share	16(e)	(0.07)	(0.23)	(0.29)

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

Theratechnologies Inc.

Consolidated Statements of Changes in Equity

For the years ended November 30, 2013, 2012 and 2011

(in thousands of Canadian dollars)

	Note	Share capital					
		Number of shares	Amount $	Contributed surplus $	Deficit $	Unrealized gains (losses) on available-for-sale financial assets* $	Total $
Balance as at November 30, 2010		60,512,764	279,398	7,808	(235,116)	566	52,656
Total comprehensive loss for the year							
Net loss for the year		-	-	-	(17,730)	-	(17,730)
Other comprehensive income (loss)							
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	121	121
Net change in fair value of available-for-sale financial assets transferred to net loss, net of tax		-	-	-	-	(228)	(228)
Total comprehensive loss for the year		-	-	-	(17,730)	(107)	(17,837)
Transactions with owners, recorded directly in equity							
Issuance of common shares	16(a)	7,837	34	-	-	-	34
Share-based compensation plan							
Share-based compensation for stock option plan		-	-	822	-	-	822
Exercise of stock options							
Monetary consideration		344,665	668	-	-	-	668
Attributed value		-	388	(388)	-	-	-
Total contributions by owners		352,502	1,090	434	-	-	1,524
Balance as at November 30, 2011		60,865,266	280,488	8,242	(252,846)	459	36,343

* Accumulated other comprehensive income

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

Theratechnologies Inc.

Consolidated Statements of Changes in Equity (*continued)*

For the years ended November 30, 2013, 2012 and 2011

(in thousands of Canadian dollars)

	Note	Share capital		Contributed surplus	Deficit	Unrealized gains (losses) on available-for-sale financial assets*	Total
		Number of shares	Amount $	$	$	$	$
Balance as at November 30, 2011		60,865,266	280,488	8,242	(252,846)	459	36,343
Total comprehensive loss for the year							
Net loss for the year		-	-	-	(13,940)	-	(13,940)
Other comprehensive income (loss)							
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	100	100
Net change in fair value of available-for-sale financial assets transferred to net loss, net of tax		-	-	-	-	(133)	(133)
Total comprehensive loss for the year		-	-	-	(13,940)	(33)	(13,973)
Transactions with owners, recorded directly in equity							
Share-based compensation plan							
Share-based compensation for stock option plan	16(d)	-	-	57	-	-	57
Exercise of stock options							
Monetary consideration	16(d)	145,337	243	-	-	-	243
Attributed value	16(d)	-	141	(141)	-	-	-
Total contributions by owners		145,337	384	(84)	-	-	300
Balance as at November 30, 2012		61,010,603	280,872	8,158	(266,786)	426	22,670
Total comprehensive income for the year							
Net loss for the year		-	-	-	(4,055)	-	(4,055)
Other comprehensive loss							
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	(75)	(75)
Net change in fair value of available-for-sale financial assets transferred to net loss, net of tax		-	-	-	-	(86)	(86)
Total comprehensive loss for the year					(4,055)	(161)	(4,216)
Transactions with owners, recorded directly in equity							
Share-based compensation plan							
Share-based compensation for stock option plan	16(d)	-	-	74	-	-	74
Total contributions by owners		-	-	74	-	-	74
Balance as at November 30, 2013		61,010,603	280,872	8,232	(270,841)	265	18,528

* Accumulated other comprehensive income

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

Theratechnologies Inc.

Consolidated Statements of Cash Flows

For the years ended November 30, 2013, 2012 and 2011

(in thousands of Canadian dollars)

	Note	2013 $	2012 $	2011 $
Cash flows from				
Operating activities				
Net loss for the year		(4,055)	(13,940)	(17,730)
Adjustments for				
Depreciation of property and equipment	13	121	564	332
Gain on sale of property and equipment		(60)	-	-
Change in deferred revenue		(1,710)	(4,077)	(5,135)
Share-based compensation for stock option plan	16(d)	74	57	822
Income tax expense (recovery)		26	5	(72)
Writedown of inventories	12	1,118	407	400
Lease inducements and amortization	15 and 18	(42)	(559)	450
Change in fair value of derivative financial assets	16(b)	19	558	490
Change in fair value of liability related to deferred stock unit plan	16(b)	(6)	(556)	(455)
Change in fair value of derivative financial liabilities		-	(16)	16
Interest income		(455)	(757)	(1,374)
Interest received		684	1,253	1,515
		(4,286)	(17,061)	(20,741)
Changes in operating assets and liabilities				
Trade and other receivables		683	616	(1,623)
Tax credits and grants receivable		421	(75)	(14)
Inventories		676	(2,864)	(6,415)
Prepaid expenses		566	1,338	(1,077)
Accounts payable and accrued liabilities		(178)	(3,162)	2,600
Provisions		(5,626)	5,574	52
		(3,458)	1,427	(6,477)
Cash flows used in operating activities		(7,744)	(15,634)	(27,218)
Financing activities				
Proceeds from issue of share capital		-	-	34
Proceeds from exercise of stock options	16(d)	-	243	668
Cash flows from financing activities		-	243	702
Investing activities				
Acquisition of property and equipment	13	-	(69)	(234)
Proceeds from sale of property and equipment		60	-	-
Proceeds from sale of bonds		7,189	14,703	31,141
Acquisition of bonds		-	-	(27,644)
Prepayment of derivative financial assets		(50)	(290)	(837)
Cash flows from investing activities		7,199	14,344	2,426
Net change in cash		(545)	(1,047)	(24,090)
Cash – Beginning of year		1,512	2,559	26,649
Cash – End of year		967	1,512	2,559

See note 20 for other information.

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

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

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 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 (Quebec) and is domiciled in Quebec, Canada. The Company is located at 2310 Alfred-Nobel Boulevard, Montréal, Quebec H4S 2B4.

The Company's ability to generate revenue is currently solely based on the commercialization of *EGRIFTA*™ in the United States. The Company's revenues are mainly derived from sales of *EGRIFTA*™ to EMD Serono, Inc. (EMD Serono) for re-sale, royalties received from EMD Serono on US sales of *EGRIFTA*™ to customers, milestone payments from the collaboration and licensing agreement entered into with EMD Serono (the EMD Serono Agreement) and the amortization of the initial payment received upon the closing of the EMD Serono Agreement.

As discussed in note 27, Subsequent events, the Company has temporarily ceased manufacturing *EGRIFTA*™ which is expected to result in a shortage of finished goods, the impact of which will prevent the Company from earning revenues and royalties during a period of time. As of the date of authorization of these consolidated financial statements, the Company has not resumed the manufacture of *EGRIFTA*™ and is unable to determine a timeline to resume its manufacture and delivery. The Company is investigating the manufacturing issues noted and completing additional tests. The Company's inability to supply *EGRIFTA*™ to the market will likely have a negative impact on its cash flows.

Also, as discussed in note 27, Subsequent events, the Company's future operations will significantly change in the coming year, which may impact the risk profile of its expected cash flows.

Notwithstanding the risks the Company is facing, it believes that it will be able to adequately fund its operations and meet its cash flow requirements for the next twelve months. However, in the future, this determination could be impacted by its inability to execute its resumption of the manufacture of *EGRIFTA*™ in a timely manner, as well as by other future events that are beyond the Company's control.

2 Basis of preparation

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 26, 2014.

Basis of measurement

The Company's consolidated financial statements have been prepared on going concern and historical cost bases, 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.

The methods used to measure fair value are discussed further in note 23.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

Use of estimates and judgment

The preparation of the Company's consolidated 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 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 consolidated financial statements is noted below.

Judgments in applying accounting policies

Revenue and deferred revenue

Revenue recognition is subject to critical judgments, particularly in collaboration agreements that include multiple deliverables, as judgment is required in allocating revenue to each component, including up-front payments, milestone payments, research services, royalties and license fees, and sale of goods. Management uses judgment in estimating the amount of royalties earned. The amount earned is calculated as a percentage of net sales of its products realized by the Company's licensees. Net sales are provided by licensees or estimated by management using estimates of revenues from product sales of the licensees less estimates for discounts, rebates, chargebacks and allowances (note 5 for additional information).

Estimation uncertainties

Contingent liability

Management uses judgment in assessing the possibility of any outflow in settlement of contingent liabilities (note 19 for additional information).

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

Onerous contracts

There is estimation uncertainty with respect to selecting inputs to the discounted cash flows used to determine the amount of the onerous contracts (note 20(b) for additional information).

Other areas of judgment and uncertainty relate to the estimation of accruals for clinical trial expenses, the recoverability of inventories, the measurement of the amount and assessment of the recoverability of tax credits and grants receivable and capitalization of development expenditures.

Reported amounts and note disclosure reflect the overall economic conditions that are most likely to occur and anticipated measures management intends to take. Actual results could differ from those estimates.

The above estimates and assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3 Significant accounting policies

The accounting policies have been applied consistently by the subsidiaries of the Company.

Basis of consolidation

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Subsidiaries are entities controlled by the Company. Control is present where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are exercisable currently are taken into consideration. The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Company.

Reciprocal balances and transactions, revenues and expenses resulting from transactions between subsidiaries and with the Company are eliminated in preparing the consolidated financial statements.

Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiaries at exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate in effect at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate in effect at the end of the reporting period.

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

Foreign currency differences arising on translation are recognized in net profit (loss), except for differences arising on the translation of available-for-sale equity instruments, which are recognized in other comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate in effect at the date on which the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate in effect at the date of the transaction.

Revenue recognition

Collaboration agreements that include multiple deliverables are considered to be multi-element arrangements. Under this type of arrangement, the identification of separate units of accounting is required and revenue is allocated among the separate units based on their relative fair values.

Payments received under a collaboration agreement may include upfront payments, milestone payments, research services, royalties and license fees, and payments for sale of goods. Revenues for each unit of accounting are recorded as described below.

(i) Sale of goods

Revenues from the sale of goods are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(ii) Royalties and licence fees

Royalties and licence fees are recognized when conditions and events under the licence agreement have occurred, the Company can make a reasonable estimate of the amount earned and collectibility is reasonably assured.

(iii) Research services

Revenues from research contracts are recognized when services to be provided are rendered and all conditions under the terms of the underlying agreement are met.

(a) Up-front payments and initial technology access fees

Up-front payments and initial technology access fees are deferred and recognized as revenue on a systematic basis over the period during which the related products or services are delivered and all obligations are performed.

(b) Milestone payments

Revenues subject to the achievement of milestones are recognized only when the specified events have occurred and collectibility is reasonably assured.

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

Cost of sales

Cost of goods sold

Cost of goods sold includes the cost of raw materials, supplies, direct labour and overhead charges allocated to goods sold.

Unallocated production costs

Unallocated production costs include unallocated indirect costs related to production as well as writedown of inventories.

Employee benefits

Salaries and short-term employee benefits

Salaries and short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term profit-sharing or cash bonus plans if the Company has a legal or constructive obligation to pay an amount as a result of past services rendered by an employee and the obligation can be estimated reliably.

Post-employment benefits

Post-employment benefits include a defined contribution plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense when due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. The Company's defined contribution plan comprises the registered retirement savings plan, the Quebec Pension Plan and unemployment insurance.

Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Finance income and finance costs

Finance income comprises interest income on available-for-sale financial assets and gains (losses) on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in net (loss) profit using the effective interest method.

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

Finance costs are comprised of bank charges, impairment losses on financial assets recognized in net (loss) profit, changes in fair value of liabilities and derivatives and of foreign currency gains and losses which are reported on a net basis.

Inventories

Inventories are presented at the lower of cost, determined using the first-in, first-out method, and net realizable value. Inventory costs include the purchase price and other costs directly related to the acquisition of materials, and other costs incurred in bringing the inventories to their present location and condition. The Company is responsible for coordinating the production and stability testing and for auditing suppliers at different times during the manufacturing process. Inventory costs also include the costs directly related to the conversion of materials to finished goods. Net realizable value is the estimated selling price in the Company's ordinary course of business, less the estimated costs of completion and selling expenses.

Work in progress inventory appears from the moment third party suppliers use the material provided by the Company until the time the Company receives the finished product. The value of the work in progress is equal to the value of material provided by the Company plus all other work performed by third-party suppliers which has been invoiced to the Company.

Derivative financial instruments

Derivative financial instruments are recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. The changes in the fair value of derivatives are recognized through profit or loss in the period in which they occur.

Property and equipment

Recognition and measurement

Items of property and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and the costs of dismantling and removing the item and restoring the site on which it is located, if any.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in net loss.

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

Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in net loss as incurred.

Depreciation

The estimated useful lives, rates and the methods of depreciation for the current and comparative periods are as follows:

Asset	Method	Rate/period
Computer equipment	Declining balance	50%
Laboratory equipment	Declining balance and straight-line	20% 5 years
Office furniture and equipment	Declining balance	20%
Leasehold improvements	Straight-line	Lower of lease term and economic life

This most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Estimates for depreciation methods, useful lives and residual values are reviewed at each year-end and adjusted if appropriate.

Intangible assets

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. A development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria are usually met when a regulatory filing has been made in a major market and approval is considered highly probable. The expenditure capitalized includes the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are expensed as incurred. Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

During the years ended November 30, 2013, 2012 and 2011, no development expenditures were capitalized.

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

Financial instruments

The Company's financial instruments are classified into one of three categories: loans and receivables, available-for-sale financial assets and other financial liabilities. Loans and receivables and other financial liabilities are measured at amortized cost.

The Company has classified its bonds as available-for-sale financial assets. The Company has presented its bonds with a maturity of less than twelve months as current assets. The Company has classified cash and trade and other receivables as loans and receivables and accounts payable and accrued liabilities as other financial liabilities.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive (loss) income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net loss.

Leases

Operating lease payments are recognized in net loss on a straight-line basis over the term of the lease.

Lease inducements arising from leasehold improvement allowances and rent-free periods form an integral part of the total lease cost and are deferred and recognized in net loss over the term of the lease on a straight-line basis.

Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each consolidated financial statement reporting date to determine whether there is objective evidence that it is impaired. The Company considers that a financial asset is impaired if objective evidence indicates that one or more loss events had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed on an individual basis for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in net loss.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net loss and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net loss.

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

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains (losses) on available-for-sale financial assets in equity, to net loss. The cumulative loss that is removed from other comprehensive income and recognized in net loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in net loss. Changes in impairment provisions attributable to time value are reflected as a separate component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in net loss, then the impairment loss is reversed, with the amount of the reversal recognized in net loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets (cash-generating unit). The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the cash-generating unit. Impairment losses recognized in prior periods are determined by the Company at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An asset's carrying amount, increased through reversal of an impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are assessed by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount on provisions is recognized in finance costs.

Restructuring

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

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

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract. There were no onerous contracts as at November 30, 2013 and 2012 other than the onerous lease contract provided for as restructuring cost (see note 20).

Site restoration

Where there is a legal or constructive obligation to restore leased premises to good condition, except for normal ageing, on expiry or early termination of the lease, the resulting costs are provisioned up to the discounted value of estimated future costs and increase the carrying amount of the corresponding item of property and equipment. The Company amortizes the cost of restoring leased premises and recognizes an unwinding of discount expense on the liability related to the term of the lease.

Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or a present obligation that arises from past events (and therefore exists) but is not recognized because it is not probable that a transfer or use of assets, provision of services or any other transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be estimated reliably.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net loss except to the extent that they relate to items recognized directly in other comprehensive loss or in equity.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and deferred tax losses that can be used against taxable profit in future periods. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse and to fiscal losses when they will be used, based on the laws that have been enacted or substantively enacted by the reporting date.

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

A deferred tax liability is generally recognized for all taxable temporary differences.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share-based compensation

Stock option plan

The Company records share-based compensation related to employee stock options granted using the fair value based method estimated using the Black-Scholes model. Under this method, compensation cost is measured at fair value at the date of grant and expensed, as employee benefits, over the period in which employees unconditionally become entitled to the award. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date.

Share-based payment arrangements in which the Company receives services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

Deferred stock unit plan

The deferred stock units (DSUs) are totally vested at the grant date. In the case of the DSUs granted to officers for annual bonuses, a DSU liability is recorded at the grant date in place of the liability for the bonus payments. In the case of the directors, the expense related to DSUs and their liabilities are recognized at the grant date. The liability is adjusted periodically to reflect any change in market value of common shares.

Government grants

Government grants consisting of grants and investment tax credits are recorded as a reduction of the related expense or cost of the asset acquired. Government grants are recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable assurance that the grant will be received.

Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

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

Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the net profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held, if applicable. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held if applicable, for the effects of all dilutive potential common shares, which consist of the stock options granted to employees.

4 Recent changes in accounting standards

New or revised standards and interpretations issued but not yet adopted

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

a) IFRS 9, Financial Instruments

In November 2009, the IASB issued IFRS 9, (IFRS 9 (2009)), and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)).

In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 (2013). The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized.

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

IFRS 9 (2010) introduces additional changes relating to financial liabilities.

IFRS 9 (2013) includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

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

The mandatory effective date is not yet determined; however, early adoption of the new standard is still permitted. Canadian reporting entities cannot early adopt IFRS 9 (2013) until it has been approved by the Canadian Accounting Standards Board. The extent of the impact of IFRS 9 has not yet been determined.

b) IFRS 10, Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 10 replaces the guidance in IAS 27, Consolidated and Separate Financial Statements, and SIC 12, Consolidation – Special Purpose Entities (SPE). IAS 27 (2008) survives as IAS 27 (2011), Separate Financial Statements, only to carry forward the existing accounting requirements for separate financial statements.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The amendments issued in June 2012 simplify the process of adopting IFRS 10 and provide additional relief from certain disclosures.

The Company intends to adopt IFRS 10, including the amendments issued in June 2012, in its consolidated financial statements for the annual period beginning on December 1, 2013. The Company does not expect the amendment to have a material impact on the consolidated financial statements.

c) IFRS 13, Fair Value Measurement

In May 2011, the IASB published IFRS 13, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income (OCI).

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

IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Company intends to adopt IFRS 13 prospectively in its consolidated financial statements for the annual period beginning on December 1, 2013. The Company does not expect the amendment to have a material impact on the consolidated financial statements.

d) Amendments to IAS 19, Employee Benefits

In June 2011, the IASB published an amended version of IAS 19. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted.

The amendments impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and when the entity can no longer withdraw the offer of the termination benefits.

The Company intends to adopt the amendments in its consolidated financial statements for the annual period beginning on December 1, 2013. The Company does not expect the amendment to have a material impact on the consolidated financial statements.

e) IFRIC 21, Levies

In May 2013, the IASB issued IFRIC 21, *Levies*.

This IFRIC (International Financial Reporting Interpretation Committee) is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively.

The IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements.

The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs.

The Company intends to adopt IFRIC 21 in its consolidated financial statements for the annual period beginning December 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

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

f) Annual Improvements to IFRS (2010-2012) and (2011-2013) cycles

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS.

Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRS would also apply.

Amendments were made to clarify the following in their respective standards:

- Definition of "vesting condition" in IFRS 2, *Share-based payment*;
- Measurement of short-term receivables and payables and scope of portfolio exception in IFRS 13, *Fair Value Measurement*;
- Definition of "related party" in IAS 24, *Related Party Disclosures*.

Special transitional requirements have been set for amendments to IFRS 2.

The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on December 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

Standard adopted

Amendments to IAS 1, Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively.

The amendments require that an entity presents separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently, an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these categories.

The existing option to present the profit or loss and OCI in two statements has remained unchanged.

The Company adopted IAS 1 on December 1, 2012, which had no impact on the consolidated financial statements.

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

5 Revenue and deferred revenue

EMD Serono, Inc.

On October 28, 2008, the Company entered into a collaboration and licensing agreement, amended in April 2012, (the EMD Serono Agreement) with EMD Serono, an affiliate of Merck KGaA of Darmstadt, Germany, regarding the exclusive commercialization rights of tesamorelin in the United States for the treatment of excess abdominal fat in HIV-infected patients with lipodystrophy (the Initial Product).

Under the terms of the EMD Serono Agreement, the Company is responsible for the development of the Initial Product up to obtaining marketing approval in the United States, which was obtained on November 10, 2010. The Company is also responsible for product production and for developing a new formulation of the Initial Product. EMD Serono is responsible for conducting product commercialization activities.

At the closing of the EMD Serono Agreement on December 15, 2008, the Company received US$30,000 (CA$36,951), which included an initial payment of US$22,000 (CA$27,097) and US$8,000 (CA$9,854) as a subscription for common shares in the Company by Merck KGaA at a price of US$3.67 (CA$4.52) per share. The Company may receive up to US$215,000, which amount includes the initial payment of US$22,000, the equity investment of US$8,000, as well as payments based on the achievement of certain development, regulatory and sales milestones. The Company will also be entitled to receive increasing royalties on annual net sales of tesamorelin in the United States, if applicable.

Royalty revenue is almost entirely derived from the sales of *EGRIFTA*™ by EMD Serono. Royalties are paid to the Company by EMD Serono quarterly in arrears based on the calendar year.

For the years ended November 30, 2013, 2012 and 2011, substantially all revenue recognized as sale of goods was in relation to sales of *EGRIFTA*™ to EMD Serono.

The initial payment of $27,097 has been deferred and is being amortized on a straight-line basis over the estimated period for developing a new formulation of the Initial Product. This period may be modified in the future based on additional information that may be received by the Company. For the year ended November 30, 2013, an amount of $1,710 (2012 – $4,077; 2011 – $5,134) was recognized as revenue. The change in the amortization amount over the three years reflects adjustments made in 2011, 2012 and 2013 to extend the service period to February 1, 2016. As at November 30, 2013, the deferred revenue related to this transaction amounted to $2,771 (2012 – $4,481).

On November 10, 2010, the US Food and Drug Administration (FDA) approved *EGRIFTA*™ (tesamorelin for injection) as the first and only indicated treatment for excess abdominal fat in HIV-infected patients with lipodystrophy (abdominal lypohypertrophy). Under the EMD Sereno Agreement, FDA homologation was associated with a milestone payment totalling US$25,000 (CA$25,000).

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

The Company may conduct research and development activities for additional indications. Under the collaboration and licensing agreement, EMD Serono has the option to commercialize additional indications for tesamorelin in the United States. If it exercises this option, EMD Serono will pay half of the development costs related to such additional indications. In such cases, the Company will also have the right, subject to an agreement with EMD Serono, to participate in promoting these additional indications.

On December 13, 2013, the Company announced that it reached an agreement with EMD Serono to regain all rights under the EMD Serono Agreement, including commercialization rights for *EGRIFTA*™ in the United States (see note 27).

Sanofi

On December 6, 2010, the Company announced the signing of a distribution and licensing agreement with sanofi (Sanofi), covering the commercial rights for *EGRIFTA*™ in Latin America, Africa and the Middle East for the treatment of excess abdominal fat in HIV-infected patients with lipodystrophy.

Under the terms of the agreement, the Company will sell *EGRIFTA*™ to Sanofi at a transfer price equal to the higher of a percentage of Sanofi's net selling price and a predetermined floor price. The Company has retained all future development rights to *EGRIFTA*™ and will be responsible for conducting research and development for any additional clinical programs. Sanofi will be responsible for conducting all regulatory activities for *EGRIFTA*™ in the aforementioned territories, including applications for approval in the different countries for the treatment of excess abdominal fat in HIV-infected patients with lipodystrophy. The Company also granted Sanofi an option to commercialize tesamorelin for other indications in the territories mentioned above. If such option is not exercised, or is declined, by Sanofi, the Company may commercialize tesamorelin for such indications on its own or with a third party. The initial term of the agreement extends until December 2020.

Ferrer Internacional S.A.

In April 2013, the Company announced that the distribution and license agreement with Ferrer Internacional S.A. had been terminated by mutual agreement. Consequently, the Company re-acquired 100% of the commercialization rights for tesamorelin in Europe, Russia, South Korea, Taiwan and certain other Asian countries.

Actelion Pharmaceuticals Canada Inc.

On February 20, 2012, the Company entered into a supply, distribution and licensing agreement granting Actelion Pharmaceuticals Canada Inc. ("Actelion") the exclusive commercialization rights to *EGRIFTA*™ for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy in Canada.

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

Under the terms of the agreement, the Company will sell *EGRIFTA*™ to Actelion at a transfer price equal to the higher of a percentage of Actelion's net selling price and a predetermined floor price. Actelion will be responsible for conducting all regulatory and commercialization activities for *EGRIFTA*™ for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy in Canada subject to the agreement. The Company will be responsible for the manufacture and supply of *EGRIFTA*™ to Actelion. The Company has retained all development rights to *EGRIFTA*™ for other indications and will be responsible for conducting development activities for any additional potential indications. The Company also granted Actelion an option to commercialize tesamorelin for other indications in Canada. If such option is not exercised, or is declined, by Actelion, the Company may commercialize tesamorelin for such indications on its own or with a third party. The initial term of the agreement extends until the later of (i) the expiration of the last valid claim based on a patent right (including patent applications) controlled by the Company in Canada covering *EGRIFTA*™ or any other product based on an additional indication for tesamorelin that Actelion has elected to commercialize under the Actelion agreement and (ii) 10 years from the date of the first commercial sale of *EGRIFTA*™.

6 Personnel expenses

	Note	2013 $	2012 $	2011 $
Salaries and short-term employee benefits		2,843	5,008	10,865
Post-employment benefits		183	306	551
Termination benefits		285	3,252	620
Share-based compensation	16(b) and (d)	99	307	1,161
		3,410	8,873	13,197

Share-based compensation does not include $9 (2012 – $43; 2011 – $155) of compensation paid to non-employee directors.

7 Unallocated production costs

	Note	2013 $	2012 $	2011 $
Salaries and other costs		331	313	423
Writedown of inventories	12	1,118	-	400
Production development costs		-	32	283
		1,449	345	1,106

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

8 Finance income and finance costs

Recognized in net loss:

	2013 $	2012 $	2011 $
Interest income	455	757	1,374
Net gain on disposal of available-for-sale financial assets	86	133	228
Finance income	541	890	1,602
Bank charges	(13)	(23)	(18)
Net foreign currency gain (loss)	(40)	81	(567)
Loss on financial instruments carried at fair value	(34)	(37)	(51)
Finance costs	(87)	21	(636)
Net finance income recognized in net loss	454	911	966

Recognized in other comprehensive income (loss):

	2013 $	2012 $	2011 $
Net change in fair value of available-for-sale financial assets, net of tax	(75)	100	121
Net change in fair value of available-for-sale financial assets transferred to net loss, net of tax	(86)	(133)	(228)
Finance costs recognized in other comprehensive income (loss), net of tax	(161)	(33)	(107)

9 Bonds

Bonds are interest-bearing available-for-sale financial assets with a carrying amount of $11,386 as at November 30, 2013 (2012 – $18,991), have stated interest rates from 3.00% to 4.85% (2012 – 2.30% to 4.85%) and have an average maturity of 2.31 years (2012 – 2.87 years).

The Company's exposure to credit and interest rate risks related to bonds is presented in note 21.

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

10 Trade and other receivables

	Note	2013 $	2012 $
Trade receivables		445	1,045
Sales tax receivable		40	113
Loans granted to employees under share purchase plan	16(d)	-	1
Other receivables		4	9
		489	1,168

The Company's exposure to credit and currency risks related to trade and other receivables is presented in note 21.

11 Tax credits and grants receivable

	2013 $	2012 $
Balance at beginning of year	421	346
Investment tax credits and grants received	(562)	(617)
Investment tax credits and grants recognized in net loss	141	692
Balance – End of year	-	421

Tax credits and grants receivable comprise research and development investment tax credits receivable from the Quebec government which relate to qualifiable research and development expenditures under the applicable tax laws. The amounts recorded as receivable are subject to a government tax audit and the final amounts received may differ from those recorded. There are no unfulfilled conditions or contingencies associated with the government assistance received.

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

Unused and unrecorded federal tax credits may be used to reduce future income tax and expire as follows:

	$
2023	452
2024	1,597
2025	1,863
2026	2,180
2027	3,000
2028	3,329
2029	2,243
2030	1,111
2031	777
2032	412
2033	271
	17,235

12 Inventories

	2013 $	2012 $
Raw materials	9,523	11,113
Work in progress	205	336
Finished goods	1,267	1,340
	10,995	12,789

In 2013, the Company recorded an inventory provision of nil on raw materials (2012 – $407 and 2011 – $42), of $1,118 on work in progress (2012 and 2011 – nil) and nil on finished goods (2012 – nil and 2011 – $406), and a reversal of inventory writedown of nil on raw materials (2012 – nil and 2011 – $(48)). The writedown in 2013 was due to losses of raw materials incurred during their conversion to finished goods. The net inventory provision of $1,118 in 2013 (2011 – $400) was recorded in unallocated production costs and the $407 in 2012 was recorded in restructuring costs.

The writedown in 2012 was due to the restructuring of October 30, 2012 (note 20(b)).

The writedown in 2011 was due to pricing related to raw materials that were originally purchased under research and development conditions and not under the Company's current long-term procurement agreements.

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

13 Property and equipment

	Computer Equipment $	Laboratory Equipment $	Office furniture and equipment $	Leasehold Improvements $	Total $
Cost					
Balance at November 30, 2011	866	1,956	1,140	1,908	5,870
Additions	-	-	-	3	3
Disposals	(45)	-	-	-	(45)
Balance at November 30, 2012	821	1,956	1,140	1,911	5,828
Disposals	(296)	(1,376)	(648)	(1,649)	(3,969)
Balance at November 30, 2013	525	580	492	262	1,859
Accumulated depreciation					
Balance at November 30, 2011	593	1,597	854	1,857	4,901
Depreciation for the year	171	228	145	20	564
Disposals	(39)	-	-	-	(39)
Balance at November 30, 2012	725	1,825	999	1,877	5,426
Depreciation for the year	47	24	28	22	121
Disposals	(296)	(1,376)	(648)	(1,649)	(3,969)
Balance at November 30, 2013	476	473	379	250	1,578
Net carrying amounts					
November 30, 2012	96	131	141	34	402
November 30, 2013	49	107	113	12	281

Depreciation expense for the year has been recorded in the following accounts in the consolidated statements of comprehensive income (loss):

	Note	2013 $	2012 $	2011 $
Cost of sales		17	19	44
Research and development expenses		22	113	146
Selling and market development expenses		2	6	6
General and administrative expenses		63	126	136
Restructuring costs	20(b)	17	300	-
		121	564	332

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

14 Accounts payable and accrued liabilities

	Note	2013 $	2012 $
Trade payables		508	1,474
Accrued liabilities and other payables		2,040	1,253
Salaries and benefits due to related parties	26	241	104
Employee salaries and benefits payable		491	440
Liability related to deferred stock unit plan	16(b)	91	68
		3,371	3,339

The Company's exposure to currency and liquidity risks related to accounts payable and accrued liabilities is presented in note 21.

15 Other liabilities

Other liabilities consist of deferred lease inducements relating to rent-free periods amounting to $174 as at November 30, 2013 (November 30, 2012 – $216) (note 18).

16 Share capital

Authorized in unlimited number and without par value

Common shares
Preferred shares issuable in one or more series

All issued shares are fully paid on November 30, 2013. On November 30, 2012, 300 shares issued under the share purchase plan were not repaid in full.

Common shareholders are entitled to receive dividends as declared by the Company at its discretion and are entitled to one vote per share at the Company's annual general meeting.

No preferred shares are outstanding.

a) 2011

The Company received subscriptions in the amount of $34 for the issuance of 7,837 common shares in connection with its share purchase plan.

All shares issued were for cash consideration.

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

b) Deferred stock unit plan

On December 10, 2010, the Board of Directors adopted a deferred stock unit plan (the DSU Plan) for the benefit of its directors and officers (the Beneficiaries) and, in April 2013, the Board of Directors suspended the issuance of new deferred stock units (DSUs). The goal of the DSU Plan is to increase the Company's ability to attract and retain high-quality individuals to act as directors or officers and better align their interests with those of the shareholders of the Company in the creation of long-term value. Under the terms of the DSU Plan, Beneficiaries who are directors are entitled to elect to receive all or part of their annual retainer to act as directors and chair of the board in DSUs. Beneficiaries who act as officers are entitled to elect to receive all or part of their annual bonus, if any, in DSUs. The value of a DSU is equal to the average closing price of the common shares on the Toronto Stock Exchange on the date on which a Beneficiary determines that he/she desire to receive or redeem DSUs and during the four (4) previous trading days. For the purposes of granting DSUs, the DSU Value for directors is determined on the first trading day of the beginning of a calendar quarter and the DSU value for officers is determined on the second business day after they have been notified of their annual bonus.

DSUs may only be redeemed when a Beneficiary ceases to act as a director or an officer of the Company, except with respect to DSUs held by the former president and chief executive officer. Under the terms of the employment agreement of the former president and chief executive officer of the Company, DSUs may only be redeemed from the business day preceding the third anniversary date of their dates of grant but no later than the last day of the third calendar year following the calendar year during which the DSUs were granted. Upon redemption, the Company must provide a Beneficiary with an amount in cash equal to the DSU value on the redemption date. Beneficiaries may not sell, transfer or otherwise assign their DSU or any rights associated therewith other than by will or in accordance with legislation regarding the vesting and partition of successions.

The DSUs are totally vested at the grant date. In the case of the DSUs granted to officers for annual bonuses, a DSU liability is recorded at the grant date in place of the liability for the bonus payments. In the case of the directors, the expense related to DSUs and their liabilities are recognized at the grant date. During the year ended November 30, 2013, $34 (2012 – $293; 2011 – $494) was recorded as an expense and is included in general and administrative expenses. The liability related to the DSUs is adjusted periodically to reflect any change in the market value of the common shares. As at November 30, 2013, a gain of $6 (2012 – $556; 2011 – $455) was recognized due to the change in the fair value of DSUs. This gain is included in gain (loss) on financial instruments carried at fair value. As at November 30, 2013, the Company had a total of 349,305 DSUs outstanding (November 30, 2012 – 265,522) and a liability related to the DSUs of $91 (2012 – liability of $68).

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

Cash-settled forward stock contracts

To protect against fluctuations in the value of the DSUs, the Company entered into two cash-settled forward stock contracts in 2011. The Company paid $837 as advance payments on the contracts. This amount corresponds to 146,875 common shares of the Company at a weighted average price of $5.70. The contracts initially expired in December 2011. On December 2, 2011, the two cash-settled forward stock contracts were amended to expire in December 2013. They were not designated as hedging instruments for accounting purposes. The Company entered into two other cash-settled forward stock contracts in 2012. The Company paid $290 as advance payment on the stock contracts. This amount corresponds to 118,647 common shares of the Company at a weighted average price of $2.44. Changes in fair value of these contracts are, therefore, included in gain (loss) on financial instruments carried at fair value in the period in which they occur. In connection with these forward stock contracts, the Company invested $1,127 in term deposits, as advance payments, with the same counterparty, such term deposits will mature at the same time as the cash-settled forward stock contracts. In 2013, the Company has partially disposed of the cash-settled forward stock contracts corresponding to 16,964 common shares of the Company at a weighted average price of $0.26. On November 30, 2013, an amount of $4 (2012 – nil) is recorded in the trade and other receivables. During the year ended November 30, 2013, a loss of $19 (2012 – $558; 2011 – $490) related to the change in the fair value of derivative financial assets was recognized. As at November 30, 2013, the fair value of cash-settled forward stock contracts was $106 (November 30, 2012 – $79) and is recorded in derivative financial assets.

c) Shareholder rights plan

On February 21, 2013, the Company's Board of Directors approved the renewal of shareholder rights plan (the Plan) and on April 15, 2013, the Company and Computershare Trust Services of Canada entered into an amended and restated shareholder rights plan agreement (the Rights Plan). The new Rights Plan was approved by the shareholders on May 24, 2013. The Plan is designed to provide adequate time for the Board and the shareholders to assess an unsolicited takeover bid for the Company. In addition, the Plan provides the Board with sufficient time to explore and develop alternatives for maximizing shareholder value if a takeover bid is made, as well as provide shareholders with an equal opportunity to participate in a takeover bid to receive full and fair value for their common shares. The Plan will expire at the close of the Company's annual meeting of shareholders in 2016.

The rights issued under the Plan will initially attach to and trade with the common shares and no separate certificates will be issued unless a triggering event occurs. The rights will become exercisable only when a acquiring person, including any party related to it, acquires or attempts to acquire 20% or more of the outstanding shares without complying with the "Permitted Bid" provisions of the Plan or without approval of the Board of Directors. Subject to the terms and conditions set out in the Rights Plan, each right would, upon exercise and payment of $5.00 per right, entitle a rights holder, other than the acquiring person and related persons, to purchase a number of common shares at twice the exercise price of $5.00 per right based on the average weighted market price of the common shares for the last twenty (20) trading days preceding the common share acquisition date (as defined in the Rights Plan).

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

Under the Plan, a Permitted Bid is a bid made to all holders of the common shares and which is open for acceptance for not less than 60 days. If at the end of 60 days at least 50% of the outstanding common shares, other than those owned by the offeror and certain related parties, has been tendered, the offeror may take up and pay for the common shares, but must extend the bid for a further 10 days to allow other shareholders to tender.

d) Stock option plan

The Company has established a stock option plan under which it can 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 10 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 November 30, 2013, 1,464,304 options could still be granted by the Company (2012 – 1,913,843).

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

Changes in the number of options outstanding during the past three years were as follows:

	Number of options	Weighted average exercise price per option $
Options as at November 30, 2010	2,849,138	5.12
Granted	250,000	5.65
Expired	(309,000)	11.17
Forfeited	(116,003)	4.46
Exercised (weighted average share price: $4.81)	(344,665)	1.94
Options as at November 30, 2011	2,329,470	4.87
Expired	(255,000)	8.58
Forfeited	(502,835)	5.42
Exercised (weighted average share price: $2.44)	(145,337)	1.67
Options as at November 30, 2012	1,426,298	4.34
Granted	880,000	0.37
Expired	(15,000)	5.40
Forfeited	(415,461)	5.11
Options as at November 30, 2013	1,875,837	2.30
Exercisable at November 30, 2013	1,065,837	3.77

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

The following table provides stock option information as at November 30, 2013:

	Options outstanding		
Price range $	**Number of options outstanding**	**Weighted average remaining life (years)**	**Weighted average exercise price $**
0.25–1.19	860,000	9.09	0.37
1.20–1.80	290,003	4.42	1.71
1.81–2.00	270,834	2.54	1.89
2.76–3.75	35,000	0.21	3.67
3.76–4.60	150,000	6.02	3.84
4.61–6.00	40,000	6.53	4.75
6.01–9.00	155,000	3.24	8.26
9.01–11.65	75,000	3.66	10.89
	1,875,837	6.25	2.30

During the year ended November 30, 2013, $74 (2012 – $57; 2011 –$822) was recorded as share-based compensation expense for the stock option plan. The fair value of options granted in 2013 and 2011 was estimated at the grant date using the Black-Scholes model and the following weighted average assumptions:

	2013	**2011**
Risk-free interest rate	1.88%	2.72%
Expected volatility	81.00%	74.00%
Average option life in years	8 years	7.5 years
Expected dividends	Nil	Nil
Grant-date share price	$0.37	$5.65
Option exercise price	$0.37	$5.65

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 solely on historical volatility equal to the expected life of the option. 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 liquidities to finance operations and future growth.

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

The following table summarizes the measurement date weighted average fair value of stock options granted during the years ended November 30, 2013 and 2011:

	Number of options	Weighted average grant-date fair value $
2013	880,000	0.24
2011	250,000	4.08

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.

e) Earnings per share

The calculation of basic (loss) earnings per share was based on the net loss attributable to common shareholders of the Company of $4,055 (2012 – $13,940; 2011 –$17,730), and a weighted average number of common shares outstanding of 61,010,603 (2012 – 60,983,651; 2011 – 60,733,780), calculated as follows:

	2013	2012	2011
Issued common shares as at December 1	61,010,603	60,865,266	60,512,764
Effect of share options exercised	-	118,385	216,828
Effect of shares issued during the year	-	-	4,188
Weighted average number of common shares as at November 30	61,010,603	60,983,651	60,733,780

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

	2013	2012	2011
Weighted average number of common shares (basic)	61,010,603	60,983,651	60,733,780
Weighted average number of common shares (diluted) as at November 30	61,010,603	60,983,651	60,733,780

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

As at November 30, 2013, 1,875,837 options (2012 – 1,426,298; 2011 – 2,329,470) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. All options outstanding at the end of 2013 could potentially dilute basic loss per share in the future.

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.

17 Income taxes

	2013 $	2012 $	2011 $
Deferred tax expense			
Origination and reversal of temporary differences	(975)	(4,060)	(4,465)
Change in unrecognized deductible temporary differences	975	4,060	4,465
Other	26	5	(72)
Total deferred tax expense (recovery)	26	5	(72)

Reconciliation between effective and applicable tax amounts:

	2013 $	2012 $	2011 $
Income taxes at domestic tax statutory rate	(1,083)	(3,765)	(5,077)
Change in unrecognized deductible temporary differences	975	4,060	4,465
Non-deductible expenses and other	134	(290)	540
	26	5	(72)

The applicable statutory tax rates are 26.9% in 2013, 27.02% in 2012 and 28.52% in 2011. The Company's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Company operates. The decrease is due mainly to the reduction of the federal income tax rate from 16.5% to 15% starting in 2012.

Deferred tax expense (recovery)

A deferred tax expense of $26 (2012 – expense of $5; 2011 – recovery of $72) related to changes in fair value of available-for-sale financial assets was recognized directly in deficit and accumulated other comprehensive income.

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

Unrecognized deferred tax assets

Aa at November 30, 2013 and 2012, deferred tax assets not recognized were as follows:

	2013 $	2012 $
Long-term:		
Research and development expenses	32,195	32,070
Deferred non-capital losses	34,021	31,781
Property and equipment	671	754
Intellectual property and patent fees	3,894	5,192
Available deductions and other	4,362	4,371
	75,143	74,168

Given the Company's past losses, management does not believe that it is probable that the Company can realize its deferred tax assets and, therefore, it has not recognized any amount in the consolidated statements of financial position.

As at November 30, 2013 and 2012, the amounts and expiry dates of tax attributes for which no deferred tax asset was recognized were as follows:

	2013		2012	
	Federal $	Provincial $	Federal $	Provincial $
Research and development expenses, without time limitation	108,756	133,459	107,646	131,382
Losses carried forward				
2014	153	-	153	-
2015	275	-	275	-
2027	7,638	7,628	7,638	7,628
2028	46,316	30,982	46,316	30,985
2029	19,484	16,467	19,484	16,467
2030	11,440	11,436	11,440	11,436
2031	23,765	21,118	23,784	21,118
2032	19,643	18,338	20,109	19,004
2033	7,865	7,758	-	-
Other temporary differences, without time limitation				
Excess of tax value of property and equipment over carrying value	2,832	2,687	3,179	2,352
Excess of tax value of intellectual property and patent fees over carrying value	14,471	14,466	19,295	19,288
Available deductions and other	56,841	1,248	56,864	1,272

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

18 Operating leases

The Company rents its headquarters and main office pursuant to an operating lease (the Lease) expiring in March 2018. Lease payments will increase by 11% beginning on November 1, 2015.

During the year ended November 30, 2013, an amount of $130 (2012 – $167; 2011 – $501) was recognized as an expense in respect of operating leases. Of the amount, $56 (2012 – $80; 2011 – $112) is included in General and administrative and selling and market development expenses and $74 (2012 – $87; 2011 – $389) is included in Research and development expenses.

The Company's lease includes a lease of land and building. Since title to the land was not transferred and the Company does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the building are with the lessor. As such, the Company determined that the lease is an operating lease.

Furthermore, the Company benefits from a rent-free period which is deferred and recognized over the lease term. As at November 30, 2013, $174 was included in Other liabilities (November 30, 2012 – $216) regarding the deferred free rent inducement and allowance (note 15 – Other liabilities).

19 Contingent liability

A motion to authorize the institution of a class action was originally filed in July 2010 in the Superior Court of Québec, District of Montreal, entitled 121851 Canada Inc. v. Theratechnologies Inc. et al., Number 500-06-000515-102. The complaint alleged that the Company, a director and a former executive officer violated the secondary market liability provisions of the Securities Act (Québec) by failing to disclose a material change relating to the administration of *EGRIFTA*™. The plaintiff sought damages on behalf of a class of persons who were shareholders at May 21, 2010 and who sold their common shares on May 25 or 26, 2010. On February 24, 2012, the Superior Court of Québec authorized 121851 Canada Inc. to institute a class action against the Company, a director and a former executive officer. On March 20, 2012, the Company filed a motion seeking permission to appeal this judgement with the Court of Appeal of Québec, District of Montreal, Number 500-09-022519-128, and the hearing took place on January 24, 2013. The Company's motion was dismissed by the Court on July 17, 2013. An application for leave to appeal the decision issued by the Court of Appeal was filed in November 2013 with the Supreme Court of Canada. Such application was approved by the Supreme Court of Canada on February 20, 2014.

In addition, 121851 Canada Inc. filed a new motion in the Superior Court of Québec, district of Montreal, in May 2013, to institute a class action against the Company, a director and a former executive officer. The second motion is based on the same facts and seeks the same conclusion as the first motion except that damages are sought under the Civil Code of Québec instead of the Securities Act (Québec). The parties have agreed to stay this motion until a final decision is issued under the first motion.

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

The Company intends to contest these class actions and consider them to be without merit. The Company has subscribed to insurance covering its potential liability and the potential liability of its directors and officers in the performance of all their duties for the Company.

20 Other information

a) Cash flow information

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

	November 30, 2013 $
Additions to other assets included in accounts payable and accrued liabilities	216
Reimbursement of prepayment of derivative financial assets included in trade and other receivables	(4)

b) Restructuring costs

2013

Effective April 2, 2013, the Company amended its lease agreement with its landlord, which will result in an 85% reduction in annual cash outlays for rent and shortens the remaining term of the lease from eight years to five years. The floor space occupied by the Company is reduced from 36,400 sq. ft. to 5,000 sq. ft. Consequently, management reviewed its estimates of the onerous lease provision, and a reversal in the amount of $3,133 has been recorded in 2013.

2012

Restructuring costs amounted to $10,702 for the year ended November 30, 2012. Early in 2012, the Company took steps to narrow the focus of its business by concentrating its efforts on *EGRIFTA*™ and on developing TH1173. The related restructuring costs were $6,176, which were incurred mainly in the first quarter. In October 2012, the Company announced further revisions to its business plan and related restructuring activities aimed at accelerating the process of becoming cash neutral. The second restructuring resulted in fourth-quarter costs of $4,526.

2011

Following a re-evaluation of its research and development business model, the Company announced a restructuring aimed at relying more on external partners in both the private and public sectors in order to bring its research and development projects forward. The resulting restructuring costs recorded in the year ended November 30, 2011 amounted to $716.

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

	2013 $	2012 $	2011 $
Restructuring costs			
Lease			
Onerous lease provision	(3,133)	5,905	-
Writeoff of related deferred lease inducements	-	(709)	-
	(3,133)	5,196	-
Depreciation of property and equipment	17	300	-
Writedown of inventories	-	407	-
Employee termination benefits	40	3,252	606
Termination of COPD clinical program	(5)	1,067	-
Professional fees and other	(30)	480	110
	22	5,506	716
	(3,111)	10,702	716

Provisions related to the restructuring in the consolidated statements of financial position:

	Onerous lease provision $	Other costs $	Total $
Balance as at November 30, 2011	-	52	52
Provisions made during the year	5,905	3,963	9,868
Provisions used during the year	(455)	(3,870)	(4,325)
Accretion expense	31	-	31
Balance as at November 30, 2012	5,481	145	5,626
Less: Current portion	1,066	145	1,211
Non-current portion as at November 30, 2012	4,415	-	4,415
Balance as at November 30, 2012	5,481	145	5,626
Provisions used during the year	(2,362)	(136)	(2,498)
Reversal of provisions	(3,133)	(9)	(3,142)
Accretion expense	14	-	14
Balance as at November 30, 2013	-	-	-

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

21 Financial instruments

Overview

This note provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, currency risk and interest rate risk, and how the Company manages those risks.

a) Credit risk

Credit risk is the risk of a loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of this exposure resulting in losses.

The Company's exposure to credit risk currently relates to accounts receivable with only one customer (see note 5) and derivative financial assets which it manages by dealing only with highly rated Canadian financial institutions. Included in the consolidated statements of financial position are trade receivables of $445 (2012 – $1,045), all of which were aged under 60 days. There was nil recorded as bad debt expense for the year ended November 30, 2013 (2012 and 2011 – nil). Financial instruments other than cash and trade and other receivables that potentially subject the Company to significant credit risk consist principally of bonds. The Company invests its available cash in highly liquid fixed income instruments from governmental, paragovernmental and municipal bodies (November 30, 2013 – $11,386; November 30, 2012 – $18,991). As at November 30, 2013, the Company believes it was not exposed to any significant credit risk for the carrying amount of the bonds.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. As indicated in the capital management section below, the Company manages this risk through the management of its capital structure. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors and/or the Audit Committee reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business.

The Company has adopted an investment policy in respect of the safety and preservation of its capital designed to ensure the Company's liquidity needs are met. The instruments are selected with regard to the expected timing of expenditures and prevailing interest rates.

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

The following are amounts due on the contractual maturities of financial liabilities as at November 30, 2013 and 2012:

					November 30, 2013
	Total $	Carrying amount $	Less than 1 year $	From 1 to 5 years $	More than 5 years $
Accounts payable and accrued liabilities	3,371	3,371	3,371	-	-
	3,371	3,371	3,371	-	-

					November 30, 2012
	Total $	Carrying amount $	Less than 1 year $	From 1 to 5 years $	More than 5 years $
Accounts payable and accrued liabilities	3,339	3,339	3,339	-	-
Provisions	5,626	5,626	1,211	3,099	1,316
	8,965	8,965	4,550	3,099	1,316

c) 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. Currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar, primarily revenues from milestone payments, sale of goods, royalties and expenses incurred in US dollars, euros and pounds sterling (GBP).

The Company manages currency risk by maintaining cash in US dollars on hand to support forecasted US dollar outflows over a 12-month horizon and from time to time by entering into forward foreign exchange contracts. The Company does not currently view its exposure to the euro and GBP as a significant foreign exchange risk due to the limited volume of transactions conducted by the Company in these currencies.

No forward foreign exchange contract was in circulation on November 30, 2013. In November 2012, the Company entered into two forward foreign exchange contracts to sell, in aggregate, US$390 for CA$387 in December 2012 and January 2013. The fair value of these instruments as at November 30, 2012 was nil.

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

Exchange rate fluctuations for foreign currency transactions can cause cash flows as well as amounts recorded in the 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 Canadian 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 consolidated statement of comprehensive (loss) income. Given the Company's policy on the management of the Company's foreign currency risk, the Company does not believe a sudden change in foreign exchange rates would impair or enhance its ability to pay its US dollar denominated obligations.

The following table presents the significant items in the original currencies exposed to currency risk at the following dates:

	November 30, 2013		
	US$	**Euro**	**GBP**
Cash	858	-	-
Trade and other receivables	408	-	-
Accounts payable and accrued liabilities	(1,356)	(14)	(2)
Total exposure	(90)	(14)	(2)

	November 30, 2012		
	US$	**Euro**	**GBP**
Cash	514	-	-
Trade and other receivables	1,048	-	-
Accounts payable and accrued liabilities	(657)	(17)	(15)
Total exposure from above	905	(17)	(15)
Forward exchange contracts	(390)	-	-
Net exposure	515	(17)	(15)

The following exchange rates are those applicable to the following periods and dates:

	November 30, 2013		November 30, 2012	
	Average rate	**Reporting date rate**	**Average rate**	**Reporting date rate**
US$–CA$	1.0239	1.0620	1.0023	0.9936
Euro–CA$	1.3557	1.4427	1.2886	1.2923
GBP–CA$	1.6000	1.7383	1.5838	1.5919

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

Based on the Company's foreign currency exposures noted above, varying the above foreign exchange rates to reflect a 5% strengthening of the Canadian dollar would have a positive or (negative) impact on the net profit or (loss) as follows, assuming that all other variables remained constant:

	November 30, 2013			November 30, 2012		
	US$	Euro	GBP	US$	Euro	GBP
Positive (negative) impact	5	1	-	(26)	1	1

An assumed 5% weakening of the Canadian dollar would have had an equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Short-term bonds held by the Company are invested at fixed interest rates and/or mature in the short term. Long-term bonds are also instruments that bear interest at fixed rates. The risk that the Company will realize a loss as a result of a decline in the fair value of its bonds is limited because these investments, although they are classified as available for sale, are generally held until close to maturity. The unrealized gains or losses on bonds are recorded in accumulated other comprehensive income.

Based on the value of the Company's short- and long-term bonds as at November 30, 2013, an assumed 0.5% decrease in market interest rates would have increased the fair value of these bonds and the accumulated other comprehensive income by approximately $125 (2012 – $258); an assumed increase in the interest rate of 0.5% would have an equal but opposite effect, assuming that all other variables remained constant.

Cash bears interest at a variable rate. Trade and other receivables, accounts payable and accrued liabilities and provisions bear no interest.

Based on the average value of variable interest-bearing cash during the year ended November 30, 2013 ($540) (2012 – $1,043), an assumed 0.5% increase in interest rates during such period would have increased the future cash flows and decreased the net loss by approximately $3 (2012 –$5); an assumed decrease of 0.5% would have had an equal but opposite effect.

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

22 Capital management

The Company's objective in managing capital is to ensure a liquidity position sufficient to finance its business activities.

To fund its activities, the Company relied primarily on public offerings of common shares in Canada and private placements of its common shares as well as upfront payments and milestone payments primarily associated with EMD Serono. When possible, the Company optimizes its liquidity position using non-dilutive sources, including investment tax credits, grants and interest income. With the market launch of *EGRIFTA*™ in 2011, the Company receives additional revenues in the form of product sales and royalties.

The Company has a $3,800 credit facility, including a line for derivatives, for its short-term financing needs. The facility is subject to certain conditions and was unused as at November 30, 2013 (note 24(c)).

The capital management objectives remain the same as for the previous year.

As at November 30, 2013, cash and bonds amounted to $12,353 (November 30, 2012 – $20,503) and tax credits and grants receivable amounted to nil (November 30, 2012 – $421), for a total of $12,353 (November 30, 2012 – $20,924). The Company believes that its cash position will be sufficient to finance its operations and capital needs for the next year.

Currently, the Company's general policy on dividends is to retain cash to keep funds available to finance the Company's growth.

The Company is not subject to any externally imposed capital requirements.

23 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 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.

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

Other financial assets and 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 historic 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.

24 Commitments

a) Leases

As at November 30, 2013 and 2012, the minimum payments required under the terms of the non-cancellable lease are as follows (see note 20(b) Other information – Restructuring costs):

	2013 $	2012 $
Less than one year	90	655
Between one and five years	324	2,384
More than five years	-	2,487
	414	5,526

b) Long-term procurement agreements

The Company has long-term procurement agreements with third party suppliers in connection with the commercialization of *EGRIFTA*™. As at November 30, 2013, the Company had outstanding purchase orders and minimum payments required under these agreements amounting to $3,128 (2012 – $2,724) for the manufacture of *EGRIFTA*™.

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

c) Credit facilities

The Company has a $1,800 revolving credit facility, bearing interest at prime rate plus 0.5%. Under the terms of the revolving credit facility, the market value of investments held must always be equivalent to 150% of amounts drawn under the facility. If the market value falls below $7,000, the Company will provide the bank with a first rank movable hypothec (security interest) of $1,850 on securities judged satisfactory by the bank.

The Company also has a line of net risk for derivative instruments, up to a maximum of $2,000.

As at November 30, 2013 and 2012, the Company did not have any borrowings outstanding under these credit facilities.

d) Post-approval commitments

In connection with its approval of *EGRIFTA*™, the FDA has required the following three post-approval commitments:

- to develop a single vial formulation of *EGRIFTA*™ (development of a new presentation of the same formulation);
- to conduct a long-term observational safety study using *EGRIFTA*™; and
- to conduct a Phase 4 clinical trial using *EGRIFTA*™.

The Company has developed a new presentation of *EGRIFTA*™ which complies with the first of the FDA's post-approval requirements, and it was launched by EMD Serono in October 2012.

The long-term observational safety study is to evaluate the safety of long-term administration of *EGRIFTA*™, and is currently recruiting patients. The Company has agreed to share the cost of this study equally with EMD Serono and estimates that its share of the cost could amount to an average of $1,300 per year, over a 15-year period. Expenditures to date amount to $771.

The Phase 4 clinical trial is to assess whether *EGRIFTA*™ increases the incidence or progression of diabetic retinopathy in diabetic HIV-infected patients with lipodystrophy and excess abdominal fat. EMD Serono is responsible for executing the trial and is to be reimbursed by the Company for the direct costs involved. The trial is currently recruiting patients. The FDA-approved protocol for the trial calls for patients to inject themselves daily with either *EGRIFTA*™ or a placebo over a three-year treatment period. The Company estimates that the trial could cost approximately $20,000. Expenditures to date amount to $4,507.

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

25 Operating segments

The Company has a single operating segment. As described in note 5, all of the Company's revenues are generated from one customer, EMD Serono, which is domiciled in the United States.

All of the Company's non-current assets are located in Canada, as is the Company's head office.

26 Related parties

The key management personnel of the Company are the directors, including the President and Chief Executive Officer and the Senor Executive Vice President and Chief Financial Officer until October 2012, and the President and Chief Executive Officer after that date.

Key management personnel compensation comprises:

	2013 $	2012 $	2011 $
Short-term employee benefits	879	1,312	2,616
Post-employment benefits	39	61	64
Share-based compensation	60	311	1,103
Termination benefits	-	1,500	-
	978	3,184	3,783

On November 30, 2013, the Company's directors controlled 1.11% of the voting shares of the Company.

27 Subsequent events

EGRIFTA™ manufacturing

On February 14, 2014, the Company announced that it expected its inventory of *EGRIFTA*™ to be depleted in a matter of weeks due to a combination of manufacturing delays and issues observed during the production of new batches of *EGRIFTA*™. The Company further advised that the ensuing depletion of the inventory would result in a shortage of *EGRIFTA*™ and an eventual stock-out and that the Company was temporarily ceasing to manufacture *EGRIFTA*™. As of the date of these consolidated financial statements, the Company has not resumed manufacture of *EGRIFTA*™ and is unable to determine a timeline to resume its manufacture and delivery. Resolving the *EGRIFTA*™ manufacturing problems and ensuring that the Company has a reliable source of supply are immediate priorities for the Company in 2014.

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

Commercialization rights for *EGRIFTA*™ in the United States

On December 13, 2013, the Company announced that it had reached an agreement with EMD Serono to regain all rights under the EMD Serono Agreement, including commercialization rights for *EGRIFTA*™ in the United States.

Under the terms of the termination and transfer agreement entered into with EMD Serono (the EMD 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 the first anniversary of the closing date. The Company also agreed to pay EMD Serono an increasing royalty (the Royalties) based on annual net sales. The Royalties will be paid until a cumulative aggregate amount is reached or until January 1, 2024, the first of these events to occur.

In order to secure the payment of the Early Termination Fee, the Company agreed to grant EMD Serono a security interest on its present and future corporeal and incorporeal movable property related to *EGRIFTA*™ until such time as the amount of US$20,000 has been reimbursed in full to EMD Serono. Thereafter, the Company and EMD Serono agreed to reduce the security interest to all present and future, corporeal and incorporeal movable property related to *EGRIFTA*™ in the United States only to secure the payment of the Royalties.

The EMD Termination Agreement provides that from and after the closing date, the Company will be responsible for the conduct of all regulatory and commercialization activities in the United States, including the conduct, and all of the costs, of the long-term observational safety study and the Phase 4 clinical trial mandated by the FDA. Also, as a consequence of the EMD Termination Agreement, the Company will no longer be obligated to develop a new formulation of *EGRIFTA*™ and the related, remaining balance in the Company's deferred revenue account (note 5) will be included in revenue on the closing date.

In addition, the EMD Termination Agreement provides that in the event there occurs a change of control of the Company within 18 months after the closing date, EMD Serono has the option to accelerate the full payment of the Early Termination Fee and to seek the payment of an amount intended to equal the net present value of the maximum future Royalties. If such change of control occurs after 18 months after the closing date, EMD Serono has the option to accelerate the payment of all unpaid Early Termination Fee.

The Company also retained the services of inVentiv Health to establish and manage its operations in the United States. The services provided by inVentiv Health will include sales force, marketing support, patient communications, regulatory compliance, reimbursement and market access. All decisions regarding the commercialization of *EGRIFTA*™ will be made from the Company's head office.

The closing of the transaction is expected to occur on May 1, 2014. Until the closing date, the EMD Serono Agreement will continue to apply.

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

Stock option plan

Between December 1, 2013 and February 24, 2014, 122,668 options were forfeited and expired at a weighted exercise average price of $3.12 per share. On December 13, 2013, the Company granted 125,000 options at an exercise price of $0.50 per share.

Deferred stock unit plan

In December 2013, the two cash-settled forward stock contracts (note 16(b)) were amended to expire in December 2014.