

Consolidated Financial Statements
(in thousands of Canadian dollars)

THERATECHNOLOGIES INC.

November 30, 2015 and 2014

THE RATECHNOLOGIES INC.

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INDEPENDENT AUDITORS' REPORT

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, 2015 and November 30, 2014, the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, 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, 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. 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.

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



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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, 2015 and November 30, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*KPMG LLP**

February 24, 2016

Montréal, Canada

THE RATECHNOLOGIES INC.

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

November 30, 2015 and November 30, 2014

	Note	2015	2014
Assets			
Current assets:			
Cash		\$ 15,350	\$ 694
Bonds	10	–	2,484
Trade and other receivables	11	4,601	2,359
Inventories	13	12,705	10,618
Prepaid expenses		1,430	1,173
Derivative financial assets	20 (b)	332	126
Total current assets		34,418	17,454
Non-current assets:			
Property and equipment	14	111	146
Intangible assets	15	15,554	15,054
Total non-current assets		15,665	15,200
Total assets		\$ 50,083	\$ 32,654
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	16	\$ 12,133	\$ 7,213
Provisions	17	304	418
Current portion of long-term obligation	18	4,391	3,682
Deferred revenue		24	1
Total current liabilities		16,852	11,314
Non-current liabilities:			
Other liabilities		–	2
Long-term obligation	18	12,505	13,470
Warrant liability	19	702	–
Total non-current liabilities		13,207	13,472
Total liabilities		30,059	24,786
Equity			
Share capital	20	290,994	280,872
Contributed surplus		8,581	8,313
Deficit		(281,077)	(281,382)
Accumulated other comprehensive income		1,526	65
Total equity		20,024	7,868
Contingent liability	23		
Commitments	28		
Total liabilities and equity		\$ 50,083	\$ 32,654

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

Approved by the Board of Directors

(signed) Paul Pommier _____ Director

(signed) Jean-Denis Talon _____ Director

THE RATECHNOLOGIES INC.

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

Years ended November 30, 2015 and 2014

	Note	2015	2014
Revenue			
Net sales	4	\$ 29,839	\$ 3,332
Research services			
Up-front payments and initial technology access fees	4	200	2,770
Royalties and licence fees	4	16	630
		30,055	6,732
Operating expenses			
Cost of sales			
Cost of goods sold		3,686	991
Unallocated production costs	6	338	1,464
Research and development expenses, net of tax credits of \$571 (2014 - \$27)	12	4,905	5,617
Selling and market development expenses	7	12,926	6,963
General and administrative expenses		4,055	4,566
		25,910	19,601
Profit (loss) from operating activities		4,145	(12,869)
Finance income	8	289	329
Finance costs	8	(2,294)	(2,080)
Federal investment tax credits	9	–	4,110
		(2,005)	2,359
Profit (loss) before income taxes		2,140	(10,510)
Income tax expense	21	(569)	(31)
Net profit (loss) for the year		1,571	(10,541)
Other comprehensive income (loss), net of tax			
Items that may be reclassified to net profit or loss in the future:			
Net change in fair value of available-for-sale financial assets, net of tax		(5)	(69)
Net change in fair value of available-for-sale financial assets transferred to net loss, net of tax		(60)	(131)
Exchange difference on translation		1,526	–
		1,461	(200)
Total comprehensive income (loss) for the year		\$ 3,032	\$ (10,741)
Earnings (loss) per share:			
Basic	20 (e)	\$ 0.03	\$ (0.17)
Diluted		0.02	(0.17)

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

THE RATECHNOLOGIES INC.

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

Years ended November 30, 2015 and 2014

	Note	Share capital		Contributed surplus	Accumulated other comprehensive income		Total
		Number of shares	Amount		Deficit		
			\$	\$	\$	\$	\$
Balance as at November 30, 2013		61,010,603	280,872	8,232	(270,841)	265	18,528
Total comprehensive loss for the year							
Net loss for the year		-	-	-	(10,541)	-	(10,541)
Other comprehensive loss							
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	(69)	(69)
Net change in fair value of available-for-sale financial assets transferred to net profit, net of tax		-	-	-	-	(131)	(131)
Total comprehensive loss for the year		-	-	-	(10,541)	(200)	(10,471)
Transactions with owners, recorded directly in equity							
Share-based compensation for stock option plan		-	-	81	-	-	81
Total contributions by owners		-	-	81	-	-	81
Balance as at November 30, 2014		61,010,603	280,872	8,313	(281,382)	65	7,868
Total comprehensive income for the year							
Net profit for the year		-	-	-	1,571	-	1,571
Other comprehensive (loss) income:							
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	(5)	(5)
Net change in fair value of available-for-sale financial assets transferred to net loss, net of tax		-	-	-	-	(60)	(60)
Exchange differences on translation		-	-	-	-	1,526	1,526
Total comprehensive income for the year		-	-	-	1,571	1,461	3,032
Transactions with owners, recorded directly in equity							
Issue of common shares	20 (a)	4,600,000	10,106	-	-	-	10,106
Broker warrants		-	-	127	-	-	127
Share issue costs		-	-	-	(1,266)	-	(1,266)
Share-based compensation plan:							
Share-based compensation for stock option plan		-	-	148	-	-	148
Exercise of stock option:							
Monetary consideration	20 (d)	5,000	9	-	-	-	9
Attributed value		-	7	(7)	-	-	-
Total contributions by owners		4,605,000	10,122	268	(1,266)	-	9,124
Balance as at November 30, 2015		65,615,603	290,994	8,581	(281,077)	1,526	20,024

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

THE RATECHNOLOGIES INC.

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

Years ended November 30, 2015 and 2014

	Note	2015	2014
Cash flows from (used in):			
Operating:			
Net profit (loss)		\$ 1,571	\$ (10,541)
Adjustments for:			
Depreciation of property and equipment	14	12	133
Amortization of intangible assets	15	1,905	1,009
Gain on sale of property and equipment		(21)	–
Change in deferred revenue		19	(2,770)
Share-based compensation for stock option plan	20 (d)	148	81
Income tax expense		569	31
Tax credits		(559)	–
Write-down of inventories	13	229	1,071
Lease inducements and amortization		(2)	(172)
Change in fair value of derivative financial assets	20 (b)	(327)	(39)
Change in fair value of liability related to deferred stock unit plan	20 (b)	257	44
Fair value of broker warrants expensed		11	–
Change in fair value of warrant liability and exchange loss		(232)	–
Interest income		(41)	(198)
Interest received		117	300
Accretion expense	8	2,500	1,203
Unrealized foreign currency loss on long-term obligation		–	714
Effect of change of foreign exchange		(8)	–
Gain on long-term obligation renegotiation		(188)	–
		5,960	(9,134)
Changes in operating assets and liabilities			
Trade and other receivables		(1,665)	(1,874)
Inventories		(488)	(694)
Prepaid expenses		(47)	(769)
Accounts payable and accrued liabilities		3,635	4,014
Provisions		(309)	418
		1,126	1,095
		7,086	(8,039)
Financing:			
Repayment of long-term obligation		(5,398)	–
Proceeds from issue of warrants		934	–
Proceeds from issue of common shares		10,106	–
Share issue costs		(1,126)	–
Proceeds from exercise of stock options		9	–
		4,525	–
Investing:			
Acquisition of intangible assets	15	–	(828)
Acquisition of property and equipment	14	–	(1)
Proceeds from sale of property and equipment		68	3
Proceeds from sale of bonds		2,333	8,569
Proceeds from prepayment of derivative financial assets		133	23
		2,534	7,766
Net change in cash		14,145	(273)
Cash, beginning of year		694	967
Effect of foreign exchange on cash		511	–
Cash, end of year		\$ 15,350	\$ 694

See Note 24 for other information.

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

Theratechnologies Inc.

Notes to Consolidated Financial Statements
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

Theratechnologies Inc. is a specialty pharmaceutical company addressing unmet medical needs in metabolic disorders to promote healthy aging 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* (Québec) and is domiciled in Québec, Canada. The Company is located at 2015 Peel Street, 5th floor, Montréal, Québec, H3A 1T8, where it has been since December 19, 2014.

1. 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”).

The consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2016.

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 27.

Functional and presentation currency

Effective December 1, 2014, the Company changed its functional currency to the United States dollar (“USD”) from the Canadian dollar (“CAD”). This is a result of the Company’s increased exposure to the USD through increased operational activity and sales in the United States. As a result, the Company has determined that the functional currency effective December 1, 2014 is the USD.

In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the Company is required to translate all amounts for the December 1, 2014 consolidated statement of financial position into the new functional currency using the exchange rate in effect at the date of the change.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

1. Basis of preparation (continued):

Functional and presentation currency (continued)

These consolidated financial statements are presented in CAD since management believes that this currency is more useful for the users of the financial statements. The exchange difference resulting from the translation is included in accumulated other comprehensive income presented in equity.

All financial information presented in CAD has been rounded to the nearest thousand.

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

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 licence fees and sale of goods.

Warrant liability

The determination of fair value of warrant liability is subject to critical judgments, particularly in establishing the level in the fair value hierarchy for financial instruments and the method used to determine the fair value measurement.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

1. Basis of preparation (continued):

Estimation uncertainties

Revenue

Management uses judgment in estimating provisions for sale of goods deductions such as cash discounts, allowances, returns, rebates, chargebacks and distribution fees (see Note 4 for additional information). Provisions are estimated by management using estimates of revenues by states and by governmental and commercial rebate programs. 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 less of the licensees estimates for cash discounts, allowances, rebates and chargebacks.

Other

Other areas of judgment and uncertainty relate to the estimation of accruals for clinical trial expenses, the recoverability of inventories, the measurement of intangible assets, long-term obligation and warrant liability.

Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and the 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.

2. 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 currently exercisable are taken into consideration. The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Company.

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

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

2. Significant accounting policies (continued):

Foreign currencies

Transactions in foreign currencies are translated to the respective functional currency 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 reporting period, adjusted for effective interest and payments during the reporting period, and the amortized cost in foreign currency translated at the exchange rate in effect at the end of the reporting period.

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. The foreign exchange gain or loss arising from the conversion of the consolidated financial statements from USD, its functional currency, to CAD, its reporting currency, is recorded in accumulated other comprehensive income.

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 up-front payments, milestone payments, research services, royalties and licence fees, and payments for sale of goods. Revenues for each unit of accounting are recorded as described below.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

2. Significant accounting policies (continued):

Revenue recognition (continued)

(i) Net sales

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. Revenue from the sale of goods is recognized net of estimated cash discounts, allowances, returns, rebates, chargebacks and distribution fees paid to its wholesalers at the time the related revenue is recorded or when the incentives are offered. The Company offers cash discounts for prompt payment to wholesalers. Cash discounts and allowances are estimated based on contractual sales terms with customers and historical payment experience. The Company allows customers to return product within a specified period of time before and after its expiration date. Provisions for returns are estimated based on historical return levels, taking into account additional available information on contract changes. The Company is subject to rebates on sales made under governmental and commercial rebate programs, and chargebacks on sales made to government agencies and retail pharmacies. Rebates and chargebacks are estimated based on historical experience, relevant statutes with respect to governmental pricing programs, and contractual sales terms. Distribution fees are estimated based on contractual terms with distributors.

(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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

2. Significant accounting policies (continued):

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 write-downs 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 employment 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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

2. Significant accounting policies (continued):

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 profit (loss) using the effective interest method.

Finance costs comprise bank charges, accretion expense on the long-term obligation, impairment losses on financial assets recognized in net (loss) profit, changes in fair value of liabilities and derivatives, unrealized foreign currency loss on long-term obligation and other 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 into 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 work in progress inventory is equal to the value of material provided by the Company plus all other work performed by third party suppliers.

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 expenditures that are 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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

2. Significant accounting policies (continued):

Property and equipment (continued)

Recognition and measurement

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 profit or loss.

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 items of property and equipment are recognized in net profit or loss as incurred.

Depreciation

The estimated useful lives, methods of depreciation and depreciation rates 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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

2. Significant accounting policies (continued):

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, 2015 and 2014, no development expenditures were capitalized.

Commercialization rights

Commercialization rights acquired by the Company have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses. They are amortized at fixed rates based on their estimated useful life of 111 months on a straight-line basis.

The amortization method and useful life of intangible assets are reviewed every year and adjusted as required.

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 12 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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

2. Significant accounting policies (continued):

Financial instruments (continued)

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 income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net profit.

The Company has classified its long-term obligation in other financial liabilities. Financial liabilities are initially recognized on the date on which they originate at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

Leases

Operating lease payments are recognized in net profit 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 profit 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 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 and if the effect 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 profit.

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 profit 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 profit.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

2. Significant accounting policies (continued):

Impairment (continued)

Financial assets (continued)

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 profit. The cumulative loss that is removed from other comprehensive income and recognized in net profit 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 profit. 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 profit, then the impairment loss is reversed, with the amount of the reversal recognized in net profit. 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 the 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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

2. Significant accounting policies (continued):

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.

Chargebacks and rebates

Chargebacks and rebates are estimated based on historical experience, relevant statutes with respect to governmental pricing programs, and contractual sales terms.

Returns

Provisions for returns are estimated based on historical return levels, taking into account additional available information on contract changes. The Company reviews its methodology and adequacy of the provision for returns on a quarterly basis, adjusting for changes in assumptions, historical results and business practices, as necessary.

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 because 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 profit except to the extent that they relate to items recognized directly in other comprehensive income or in equity.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year 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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

2. Significant accounting policies (continued):

Income taxes (continued)

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.

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 the market value of common shares.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

2. Significant accounting policies (continued):

Research and development

The Company elected to account for non-refundable research and development tax credits under IAS 20, *Accounting for Governmental Grants and Disclosures of Governmental Assistance*, and as such, these credits are presented against gross research and development expenses in the consolidated statements of comprehensive income (loss). Non-refundable research and development tax credits are included in earnings or deducted from the related assets, provided there is reasonable assurance that the Company has complied and will comply with the conditions related to the tax credits and that the credits will be received.

Share capital

(i) Common shares

Common shares are classified as equity.

(ii) Warrants

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

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

(iii) Transaction costs

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

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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

3. Recent changes in accounting standards:

New or revised standards and interpretations issued but not yet adopted

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

IFRS 9, Financial Instruments

In July, 2014, the IASB issued the complete IFRS 9 (2014), *Financial Instruments*. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new “expected credit loss” model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns 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.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on December 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

3. Recent changes in accounting standards (continued):

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

IFRS 15, Revenue from Contracts with Customers (continued)

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

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

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

This standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on December 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Amendments to IAS 1

In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative").

These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures.

The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

The Company will adopt these amendments in its financial statements for the annual period beginning on December 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Amendments to IAS 16 and IAS 38, Acceptable Clarification of Methods of Depreciation and Amortization

On May 12, 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

3. Recent changes in accounting standards (continued):

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

Amendments to IAS 16 and IAS 38, Acceptable Clarification of Methods of Depreciation and Amortization (continued)

The amendments made to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset.

The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

The Company will adopt the amendments to IAS 16 and IAS 38 in its financial statements for the annual period beginning on December 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Transfer of assets between an investor and its associate or joint venture

On September 11, 2014, the IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*.

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically, under the existing consolidation standard the parent recognizes the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognizes the gain only to the extent of unrelated investors' interests in the associate or JV.

The main consequence of the amendments is that a full gain/loss is recognized when the assets transferred meet the definition of a "business" under IFRS 3, *Business Combinations*. A partial gain/loss is recognized when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary.

The amendments were to be applied prospectively for annual periods beginning on or after January 1, 2016, however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely. Early adoption is still permitted.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

3. Recent changes in accounting standards (continued):

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

Transfer of assets between an investor and its associate or joint venture (continued)

The Company does not intend to early adopt these amendments in its financial statements for the annual period beginning December 1, 2016, as the effective date for these amendments has been deferred indefinitely.

Annual improvements to IFRS (2012-2014) cycles

In September 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process.

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

Annual improvements to IFRS (2012-2014) cycles (continued)

- Changes in method for disposal under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*;
- “Continuing involvement” for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7, *Financial Instruments: Disclosures*;
- Discount rate in a regional market sharing the same currency under IAS 19, *Employee Benefits*;
- Disclosure of information “elsewhere in the interim financial report” under IAS 34, *Interim Financial Reporting*.

The amendments will apply for annual periods beginning on or after January 1, 2016. Early application is permitted, in which case, the related consequential amendments to other IFRS would also apply.

Each of the amendments has its own specific transition requirements.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on December 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

4. Revenue and deferred revenue:

EMD Serono

On December 13, 2013, the Company signed the EMD Serono Termination Agreement (as defined in Note 18 below) in order to regain all of the commercialization rights to *EGRIFTA*[®] in the United States. The transaction closed on May 1, 2014 and from that date the Company is solely responsible for the commercialization of *EGRIFTA*[®] in the United States.

As a consequence of the EMD Serono Termination Agreement, the Company will no longer be obligated to develop a new formulation of *EGRIFTA*[®] and the related remaining balance of \$2,238 in the Company's deferred revenue account has been included in revenue on the closing date.

RxCrossroads

On May 12, 2014, the Company entered into a master services agreement with RxC Acquisition Company ("RxCrossroads"), along with two statements of work ("RxCrossroads Agreements"). Under the terms of the RxCrossroads Agreements, RxCrossroads acts as the Company's exclusive third party logistic service provider for all of its products in the United States and, as such, provides warehousing and logistical support services to the Company, including inventory control, account management, customer support, product return management and fulfillment of orders.

Under the RxCrossroads Agreements, RxCrossroads also acts as the Company's exclusive first party distributor of *EGRIFTA*[®] in the United States. In such role, RxCrossroads purchases *EGRIFTA*[®] from the Company and takes title thereto, when the goods arrive in their warehouse. RxCrossroads' purchases of *EGRIFTA*[®] are triggered by its expectations of market demand over a certain period of time. RxCrossroads fulfills orders received from authorized wholesalers and delivers *EGRIFTA*[®] directly to that authorized wholesaler's client, namely, a specialty pharmacy forming part of our network of specialty pharmacies.

Sanofi

On December 6, 2010, the Company announced the signing of a distribution and licence 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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

4. Revenue and deferred revenue (continued):

Sanofi (continued)

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.

AOP Orphan Pharmaceuticals

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

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

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

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

4. Revenue and deferred revenue (continued):

BL&H Co., Ltd.

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

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

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

5. Personnel expenses:

	Note	2015	2014
Salaries and short-term employee benefits		\$ 3,307	\$ 3,019
Post-employment benefits		199	189
Share-based compensation	20 (d)	148	81
		\$ 3,654	\$ 3,289

6. Unallocated production costs:

	Note	2015	2014
Salaries and other costs		\$ 109	\$ 393
Write-down of inventories	13	229	1,071
		\$ 338	\$ 1,464

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

7. Selling and market development expenses:

	2015	2014
Implementation fees	\$ 56	\$ 1,823
Selling and market development expenses	10,965	4,131
Amortization of intangible assets	1,905	1,009
	\$ 12,926	\$ 6,963

8. Finance income and finance costs:

Recognized in net profit (loss):

	Note	2015	2014
Interest income		\$ 41	\$ 198
Net gain on disposal of available-for-sale financial assets		60	131
Gain on long-term obligation renegotiation		188	–
Finance income		289	329
Accretion expense	18	(2,500)	(1,203)
Bank charges		(3)	(4)
Net foreign currency loss		(5)	(148)
Unrealized foreign currency expense on long-term obligation		–	(714)
Gain (loss) on financial instruments carried at fair value		79	(11)
Change in fair value of warrant liability	19	250	–
Issuance costs related to warrant liability	19	(115)	–
Finance costs		(2,294)	(2,080)
Net finance cost recognized in net profit or loss		\$ (2,005)	\$ (1,751)

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

8. Finance income and finance costs (continued):

Recognized in other comprehensive income:

	2015	2014
Net change in fair value of available-for-sale financial assets, net of tax	\$ (5)	\$ (69)
Accumulated net change in fair value of available-for-sale financial assets transferred to net profit or loss, net of tax	(60)	(131)
Finance costs recognized in other comprehensive income, net of tax	\$ (65)	\$ (200)

9. Federal investment tax credits:

In 2014, the Company settled a dispute with the Canada Revenue Agency in respect of an investment tax credit refund claim related to its 1994 and 1995 taxation years, resulting in a refund of \$4,110 (\$1,650 of investment tax credit refund and \$2,520 in interest less associated fees). This refund was received on July 3, 2014.

10. Bonds:

As at November 30, 2014, bonds were interest-bearing available-for-sale financial assets with a carrying amount of \$2,484, had stated interest rates from 3.25% to 4.85% and had an average maturity of 1.43 years.

11. Trade and other receivables:

	2015	2014
Trade receivables	\$ 4,479	\$ 2,291
Sales tax receivable	117	68
Other receivables	5	–
	\$ 4,601	\$ 2,359

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

12. Tax credits and grants receivable:

	2015	2014
Balance, beginning of year	\$ –	\$ –
Investment tax credits and grants received	(571)	(39)
Investment tax credits and grants recognized in net profit	571	39
Balance, end of year	\$ –	\$ –

Tax credits and grants receivable comprise research and development investment tax credits receivable from the Québec 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.

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

2024	\$ 1,478
2025	1,863
2026	2,180
2027	3,000
2028	3,329
2029	2,243
2030	1,111
2031	777
2032	412
2033	269
	\$ 16,662

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

13. Inventories:

	2015	2014
Raw materials	\$ 9,561	\$ 8,909
Work in progress	109	854
Finished goods	3,035	855
	<hr/>	<hr/>
	\$ 12,705	\$ 10,618

In 2015, the Company recorded an inventory provision of \$56 on raw materials (2014 - \$180), \$129 on work in progress (2014 - \$865) and \$79 on finished goods (2014 - \$26), and a reversal of inventory write down of \$(34) of finished goods (2014 - nil). The net inventory provision of \$229 in 2015 (2014 - \$1,071) was recorded in cost of sales as unallocated production costs.

The writedowns in 2015 and 2014 were due to losses incurred during conversion of raw materials to finished goods, losses associated with changing over from 2 mg/vial to the 1 mg/vial of *EGRIFTA*[®] and losses associated with expired goods.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

14. Property and equipment:

	Computer equipment	Laboratory equipment	Office furniture and equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Cost					
Balance as at November 30, 2013	525	580	492	262	1,859
Additions	1	-	-	-	1
Disposals	(1)	(14)	(1)	(7)	(23)
Balance as at November 30, 2014	525	566	491	255	1,837
Additions	5	-	-	-	5
Disposals	(418)	(423)	(413)	(255)	(1,509)
Effect of changes in exchange rates	18	24	13	-	55
Balance as at November 30, 2015	130	167	91	-	388
Accumulated depreciation					
Balance as at November 30, 2013	476	473	379	250	1,578
Depreciation for the year	40	2	80	11	133
Disposals	(1)	(11)	(1)	(7)	(20)
Balance as at November 30, 2014	515	464	458	254	1,691
Depreciation for the year	6	2	3	1	12
Disposals	(418)	(396)	(396)	(255)	(1,465)
Effect of change in exchange rates	17	11	11	-	39
Balance as at November 30, 2015	120	81	76	-	277
Net carrying amounts					
November 30, 2014	10	102	33	1	146
November 30, 2015	10	86	15	-	111

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

	2015	2014
Research and development expenses	\$ 5	\$ 22
Selling and market development expenses	1	2
General and administrative expenses	6	109
	\$ 12	\$ 133

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

15. Intangible assets:

	Commercialization rights
Cost	
Balance as at November 30, 2013	\$ 216
Additions	15,847
Balance as at November 30, 2014	16,063
Effect of changes in exchange rates	2,686
Balance as at November 30, 2015	\$ 18,749
Accumulated amortization	
Balance as at November 30, 2013	\$ –
Amortization for the year	1,009
Balance as at November 30, 2014	1,009
Amortization for the year	1,905
Effect of changes in exchange rates	281
Balance as at November 30, 2015	\$ 3,195
Carrying amounts	
November 30, 2014	\$ 15,054
November 30, 2015	15,554

Cost includes the commercialization rights to *EGRIFTA*[®] in the United States regained under the terms of the EMD Serono Termination Agreement for an amount of \$15,235 and related acquisition costs of \$828.

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

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

16. Accounts payable and accrued liabilities:

	Note	2015	2014
Trade payables		\$ 3,145	1,824
Accrued liabilities and other payables		8,028	4,808
Salaries and benefits due to related parties	30	187	67
Employee salaries and benefits payable		452	401
Liability related to deferred stock unit plan	20 (b)	321	113
		\$ 12,133	\$ 7,213

17. Provisions:

	Chargebacks and rebates	Returns	Total
Balance as at November 30, 2013	\$ –	\$ –	\$ –
Provisions made during the year	377	44	421
Provisions used during the year	(3)	–	(3)
Balance as at November 30, 2014	374	44	418
Provisions made during the year	1,406	26	1,432
Provisions used during the year	(1,376)	(10)	(1,386)
Provisions reversed during the year	(306)	(52)	(358)
Effect of changes in exchange rate	186	12	198
Balance as at November 30, 2015	\$ 284	\$ 20	\$ 304

18. Long-term obligation:

	2015	2014
Early Termination Fee	\$ 16,896	\$ 17,152
Current portion	(4,391)	(3,682)
Non-current portion	\$ 12,505	\$ 13,470

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

18. Long-term obligation (continued):

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

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

Long-term obligation is payable as follows:

	Capital	Accrued interest	Total
Less than one year	\$ 4,391	\$ 950	\$ 5,341
Between one and five years	12,505	3,519	16,024
	\$ 16,896	\$ 4,469	\$ 21,365

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
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Years ended November 30, 2015 and 2014

19. Warrant liability:

On August 6, 2015, the Company closed a public offering of 4,600,000 units (Note 20 (a)), each unit consisting of one common share and one-half of a common share purchase warrant of the Company, with each whole warrant exercisable for a period of 24 months from the closing date of the offering at an exercise price of CAD\$3.00 per share. Under IFRS, the prescribed accounting treatment for warrants issued with an exercise price denominated in a foreign currency is to classify these warrants as a liability measured at fair value. At each subsequent reporting date, the warrants are re-measured at their fair value and the change in fair value is recognized through profit or loss. Transaction costs attributable to warrants classified as a warrant liability amounted to \$115 and were included in finance costs in the consolidated statements of comprehensive income (loss). Details related to the warrant liability are summarized below:

	Number of warrants	Liability amount
Balance as at November 30, 2014	–	\$ –
Issued in public offering	2,300,000	934
Change in fair value of warrant liability	–	(250)
Foreign currency loss	–	18
Balance as at November 30, 2015	2,300,000	\$ 702

20. Share capital:

Authorized in unlimited number and without par value

Common shares

Preferred shares issuable in one or more series

All issued shares were fully paid on November 30, 2015 and 2014.

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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

20. Share capital (continued):

(a) Public offering

On August 6, 2015, the Company closed a public offering of units, each unit consisting of one common share and one-half of a common share purchase warrant of the Company, with each whole warrant exercisable for a period of 24 months from the closing date of the offering. The Company also issued broker warrants to the underwriters to purchase the equivalent number of units detailed below.

Details are summarized in the table below:

Issue price per unit		\$2.40
Number of common shares issued		4,600,000
Number of warrants issued		2,300,000
Warrants exercise price		\$3.00
Number of broker warrants issued		184,000
Broker warrant exercise price		\$2.40
Warrant term in months		24
Broker warrant term in months		18

Cash proceeds summary:		
Gross proceeds	\$	11,040
Unit cash issuance costs		(1,254)

Net cash proceeds on issuance	\$	9,786
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Fair value of broker warrants	\$	127
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Total transaction costs	\$	1,381
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Proceeds allocated to common shares	\$	10,106
Share issue costs		1,266

Proceeds allocated to warrant liability (note 19)	\$	934
Transaction costs related to warrant liability (note 19)		115

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

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

20. Share capital (continued):

(a) Public offering (continued)

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

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

(b) 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 to 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 desires to receive or redeem DSUs and during the four 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. 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 RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

20. Share capital (continued):

(b) Deferred stock unit plan (continued)

DSUs are totally vested at the grant date. In the case of 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 directors, the expense related to DSUs and their liabilities are recognized at the grant date. The liability related to DSUs is adjusted periodically to reflect any change in the market value of the common shares. As at November 30, 2015, a loss of \$257 (2014 - loss of \$44) was recognized due to the change in the fair value of DSUs. This loss is included in gain (loss) on financial instruments carried at fair value. As at November 30, 2015, the Company had a total of 197,015 DSUs outstanding (2014 - 305,057 DSUs) and a liability related to the DSUs of \$321 (2014 - liability of \$113).

Cash-settled forward stock contracts

To protect against fluctuations in the value of DSUs, the Company entered into two cash-settled forward stock contracts in 2011. The Company paid \$837 as an advance payment 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 an 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 in term deposits, as advance payments, with the same counterparty, and such term deposits will mature at the same time as the cash-settled forward stock contracts. In 2015, the Company partially disposed of the cash-settled forward stock contracts corresponding to 108,042 (2014 - 44,248) common shares of the Company at a weighted average price of \$1.27 (2014 - \$0.43). As at November 30, 2015, \$4 (2014 - nil) is recorded in trade and other receivables. During the year ended November 30, 2015, a gain of \$327 (2014 - gain of \$39) related to the change in the fair value of derivative financial assets was recognized. As at November 30, 2015, the fair value of cash-settled forward stock contracts was \$332 (2014 - \$126) and is recorded in derivative financial assets.

In November 2015, the two cash-settled forward stock contracts were amended to expire on December 1, 2016.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

20. Share capital (continued):

(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 an 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 parties, 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 20 trading days preceding the common share acquisition date (as defined in the Rights Plan).

Under the Plan, a Permitted Bid is a bid made to all holders of common shares and which is open for acceptance for no 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 grant date or over a period of up to five years. As at November 30, 2015, 1,242,306 options could still be granted by the Company (2014 - 1,477,472).

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

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

20. Share capital (continued):

(d) Stock option plan (continued)

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

	Number of options	Weighted average exercise price per option
Options as at November 30, 2013	1,875,837	2.30
Granted	125,000	0.50
Forfeited	(138,168)	3.18
Options as at November 30, 2014	1,862,669	2.12
Granted	300,000	1.11
Expired	(44,834)	2.39
Forfeited	(20,000)	0.38
Exercised (share price: \$2.40)	(5,000)	1.80
Options outstanding as at November 30, 2015	2,092,835	1.98
Options exercisable as at November 30, 2015	919,501	3.78

The following table provides stock option information as at November 30, 2015:

Price range	Number of options outstanding (years)	Weighted average remaining life	Weighted average exercise price
\$			\$
0.25 - 1.19	1,265,000	7.73	0.56
1.20 - 1.80	221,169	2.92	1.77
1.81 - 2.00	226,666	0.78	1.90
3.76 - 4.60	130,000	4.02	3.84
4.61 - 6.00	40,000	4.53	4.75
6.01 - 9.00	135,000	1.24	8.26
9.01 - 11.65	75,000	1.66	10.89
	2,092,835	5.54	1.98

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

20. Share capital (continued):

(d) Stock option plan (continued)

During the year ended November 30, 2015, \$148 (2014 - \$81) was recorded as share-based compensation expense for the stock option plan. The fair value of options granted in 2015 and 2014 was estimated at the grant date using the Black-Scholes model and the following weighted average assumptions:

	2015	2014
Risk-free interest rate	1.39%	2.58%
Expected volatility	52.66%	87.8%
Average option life in years	8 years	7.5 years
Expected dividends	Nil	Nil
Grant-date share price	\$1.11	\$0.50
Option exercise price	\$1.11	\$0.50

The risk-free interest rate is based on the implied yield on a Canadian government zero-coupon issue, with a remaining term equal to the expected term of the option. The volatility is based on weighted average historical volatility adjusted for changes expected due to publicly available information. The life of the options is estimated taking into consideration the vesting period at the grant date, the life of the option and the average length of time similar grants have remained outstanding in the past. The dividend yield was excluded from the calculation since it is the present policy of the Company to retain all earnings to finance operations and future growth.

The following table summarizes the measurement date weighted average fair value of stock options granted during the years ended November 30, 2015 and 2014:

	Number of options	Weighted average grant date fair value
2015	300,000	0.57
2014	125,000	0.36

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

20. Share capital (continued):

(d) Stock option plan (continued)

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

(e) Earnings (loss) per share

The calculation of basic earnings (loss) per share was based on the net profit (loss) attributable to common shareholders of the Company of \$1,571 (2014 - \$(10,541)), and a weighted average number of common shares outstanding of 62,487,014 (2014 - 61,010,603), calculated as follows:

	2015	2014
Issued common shares as at December 1	61,010,603	61,010,603
Effect of share options exercised	1,890	–
Effect of public issue of common shares	1,474,521	–
Weighted average number of common shares	62,487,014	61,010,603

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

	2015	2014
Weighted average number of common shares	62,487,014	61,010,603
Effect of potential dilutive share options	684,757	–
Weighted average number of diluted common shares	63,171,771	61,010,603

For the year ended November 30, 2015, a number of 1,017,835 share options, 2,300,000 warrants and 184,000 broker warrants, that may potentially dilute earnings per share in the future, were excluded from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

20. Share capital (continued):

(e) Earnings (loss) per share

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.

21. Income taxes:

	2015	2014
Current tax expense		
Current tax expense	\$ 559	\$ -
Deferred tax expense		
Origination and reversal of temporary differences	\$ 698	\$ (2,259)
Change in unrecognized deductible temporary differences	(698)	2,259
Other	10	31
Total deferred tax expense	\$ 10	\$ 31
Total current and deferred tax expense	\$ 569	\$ 31

Reconciliation between effective and applicable tax amounts:

	2015	2014
Income taxes at domestic tax statutory rate	\$ 576	\$ (2,827)
Change in unrecognized deductible temporary differences	(698)	2,259
Non-deductible expenses and other	691	599
	\$ 569	\$ 31

The applicable statutory tax rates were 26.9% in 2015 and 26.9% in 2014. The Company's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Company operates.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

21. Income taxes (continued):

Current tax expense

Although the Company recorded a current tax expense of \$559 (nil in 2014), an investment tax credit in the same amount is offsetting the entire tax liability.

Deferred tax expense

A deferred tax expense of \$10 (2014 - expense of \$31) related to changes in fair value of available-for-sale financial assets was recognized directly in deficit and accumulated other comprehensive income.

Unrecognized deferred tax assets

As at November 30, unrecognized deferred tax assets were as follows:

	2015	2014
Long-term		
Research and development expenses	\$ 31,583	\$ 31,735
Non-capital losses	35,212	36,842
Property and equipment	608	652
Intellectual property and patent fees	3,894	3,894
Available deductions and other	4,742	4,279
	<hr/>	<hr/>
	\$ 76,039	\$ 77,402

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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

21. Income taxes (continued):

As at November 30, 2015 and 2014, the amounts and expiry dates of tax attributes for which no deferred tax asset was recognized were as follows:

	2015		2014	
	Federal	Provincial	Federal	Provincial
Research and development expenses, without time limitation	\$ 106,462	\$ 131,205	\$ 107,033	\$ 131,764
Losses carried forward:				
2015	–	–	275	–
2027	7,638	7,628	7,638	7,628
2028	46,316	26,844	46,316	30,982
2029	19,484	16,467	19,484	16,467
2030	11,440	11,436	11,440	11,436
2031	23,559	20,913	23,765	21,118
2032	15,962	14,656	19,643	18,338
2033	7,789	7,681	7,769	7,681
2034	10,503	10,411	10,691	10,599
Other temporary differences, without time limitation				
Excess of tax value of property and equipment over carrying value	2,503	1,973	2,718	2,066
Excess of tax value of intellectual property and patent fees over carrying value	14,471	14,466	14,471	14,466
Available deductions and other	58,272	2,680	56,513	922

22. Operating leases:

The Company rents its headquarters and main office pursuant to operating leases (the "Leases") originally expiring in March 2018. During the third quarter of 2014, the Company received a notice of lease termination from its landlord. Consequently, in accordance with the terms of its amended lease agreement, the Company relocated during the first quarter of fiscal 2015.

During the year ended November 30, 2015, an amount of \$(170) (2014 - \$72) was recognized as a credit (expense) in respect of operating leases. Of the amount, \$(66) (2014 - \$32) is included in general and administrative expenses, \$(56) (2014 - \$31) is included in research and development expenses and \$(48) (2014 - \$9) is included in selling and market development expenses.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

23. Contingent liability:

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

24. Other information:

(a) Cash flow information

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

	2015	2014
Additions to intangible assets included in long-term obligation	\$ –	\$ 15,235
Additions to property and equipment included in accounts payable and accrued liabilities	5	–
Share issue costs included in accounts payable and accrued liabilities	25	–
Reimbursement of prepayment of derivative financial assets included in trade and other receivable	4	–

25. 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 RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

25. Financial instruments (continued):

(a) Credit risk (continued)

The Company's exposure to credit risk currently relates to accounts receivable with only one customer (see Note 4) 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 \$4,479 (2014 - \$2,291), all of which were aged under 60 days. There was no amount recorded as bad debt expense for the year ended November 30, 2015 (2014 - 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, paragonovernmental and municipal bodies (2015 - nil; 2014 - \$2,484). As at November 30, 2015, the Company believes it was not exposed to any significant credit risk.

(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 Note 26, 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 that the Company's liquidity needs are met. The instruments are selected with regard to the expected timing of expenditures and prevailing interest rates.

The following are amounts due on the contractual maturities of financial liabilities as at November 30, 2015 and 2014:

			2015		
	Carrying amount	Total	Less than 1 year	From 1 to 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 11,643	\$ 11,643	\$ 11,643	\$ -	\$ -
Long-term obligation	16,896	21,365	5,341	16,024	-
	\$ 28,539	\$ 33,008	\$ 16,984	\$ 16,024	\$ -

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

25. Financial instruments (continued):

(b) Liquidity risk (continued)

	Carrying amount	Total	Less than 1 year	From 1 to 5 years	2014 More than 5 years
Accounts payable and accrued liabilities	\$ 7,213	\$ 7,213	\$ 7,213	\$ -	\$ -
Long-term obligation	17,152	22,880	4,576	18,304	-
	\$ 24,365	\$ 30,093	\$ 11,789	\$ 18,304	\$ -

(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. Since the change of functional currency effective December 1, 2015 (Note 1), currency risk is limited to the portion of the Company's business transactions denominated in currencies other than US dollars (2014 - Canadian dollars), primarily cash, sale of goods and expenses incurred in Canadian dollars.

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

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 US dollar at the rates of exchange at each consolidated statement of financial position date, the impact of which is reported as foreign exchange gain or loss in the consolidated statements of comprehensive income (loss). The Company does not believe a sudden change in foreign exchange rates would impair or enhance its ability to pay its Canadian dollar denominated obligations.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

25. Financial instruments (continued):

(c) Currency risk (continued)

The following table presents the significant items in the original currencies exposed to currency risk as at November 30, 2015 and 2014:

		2015
Cash	CDN\$	7,189
Accounts payable and accrued liabilities		(2,312)
Warrant liability		(702)
Total exposure	CDN\$	4,175

		2014
Cash	US\$	557
Trade and other receivables		1,997
Accounts payable and accrued liabilities		(4,159)
Provisions		(372)
Long-term obligation		(14,993)
Total exposure	US\$	(16,970)

The following exchange rates are those applicable as at November 30, 2015 and 2014 to:

	2015		2014	
	Average rate	Reporting date rate	Average rate	Reporting date rate
US\$ - CA\$	1.2606	1.3353	1.0971	1.1440

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

25. Financial instruments (continued):

(c) Currency risk (continued)

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 net earnings as follows, assuming that all other variables remained constant:

	2015		2014	
(Negative) positive impact	CDN\$	(209)	US\$	849

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.

As at November 30, 2015, the Company held no short- and long-term bonds. Based on the value of the Company's short- and long-term bonds as at November 30, 2014, 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 \$20; 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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

25. Financial instruments (continued):

(d) Interest rate risk (continued)

Based on the average value of variable interest-bearing cash during the year ended November 30, 2015 of \$7,124 (2014 – \$966), an assumed 0.5% increase in interest rates during such period would have increased future cash flows and decreased net loss by approximately \$36 (2014 - \$5); an assumed decrease of 0.5% would have had an equal but opposite effect.

26. Capital management:

The Company's objective in managing its 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 up-front payments and milestone payments primarily associated with EMD Serono. With the market launch of *EGRIFTA*[®] in 2011, the Company received additional revenues in the form of product sales and royalties. With the EMD Serono Termination Agreement having taken effect on May 1, 2014, the Company now benefits from revenue by selling directly to its exclusive distributor in the United States, RxCrossroads.

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

As at November 30, 2015, cash and bonds amounted to \$15,350 (2014 - \$3,178). The Company believes that its cash position and future operating cash flows 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 its growth.

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

27. Determination of fair values:

Certain of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

27. Determination of fair values (continued):

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.

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).

Long-term obligation

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

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.

Warrant liability

The warrant liability is recognized at fair value and considered Level 2 in the fair value hierarchy for financial instruments. The fair value is determined using the quoted price or adjusted quoted price in order to consider the bid and ask price in low-market trade activities.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

28. Commitments:

(a) Royalties

Under the terms of the EMD Serono Termination Agreement, the Company agreed to pay EMD Serono an increasing royalty (the "Royalties") based on annual net sales. The Royalties starting in January 1, 2016 will be paid until a cumulative aggregate amount is reached or until January 1, 2024, the first of these events to occur.

(b) Leases

The Company received a notice of lease termination from its landlord during the Company's third quarter of 2014. Consequently, the Company signed a new lease agreement in September 2014 for its new headquarters which was effective from January 1, 2015 to December 31, 2015. The Company also signed a second lease agreement for the period after 2015 for the rental of the same space. The committed amounts below thus include the payments for both new leases and do not include the payments from the terminated lease.

As at November 30, 2015 and 2014, the minimum payments required under the terms of the non-cancellable leases are as follows:

	2015	2014
Less than one year	\$ 221	\$ 170
One to five years	836	917
More than five years	–	140
	\$ 1,057	\$ 1,227

(c) 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, 2015, the Company had outstanding purchase orders and minimum payments required under these agreements amounting to \$3,099 (2014 - \$3,782) for the manufacture of *EGRIFTA*[®] and for various services.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

28. Commitments (continued):

(d) Credit facilities

In the second quarter of 2014, the Company terminated its CDN\$1,800 revolving credit facility.

Since the fourth quarter of 2015, the Company has a CDN\$2,000 revolving credit facility, bearing interest at prime rate plus 1%. As at November 30, 2015, the Company did not have any borrowing outstanding under this credit facility.

Under the terms of the revolving credit facility, the Company must comply with certain covenants including maintenance of financial ratios. The Company was in compliance with all covenants as at February 24, 2016. The revolving credit facility is secured by the accounts receivable and the stocks.

(e) Post-approval commitments

In connection with its approval of *EGRIFTA*[®], the Food and Drug Administration (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 developed a new presentation of *EGRIFTA*[®] which complied with the first of the FDA's post-approval commitments and was launched by EMD Serono in October 2012. However manufacturing difficulties caused the Company to suspend production of new (2 mg/vial) presentation and revert to the original presentation (1 mg/vial) in 2014. The Company remains committed to supplying a 2 mg/vial presentation of *EGRIFTA*[®] and has made a proposal in this regard to the FDA. As of the date of these consolidated financial statements, the Company's proposal has been approved by the FDA and is proceeding with the first step, which is to produce R&D batches of the new presentation.

The long-term observational safety study is to evaluate the safety of long-term administration of *EGRIFTA*[®]. The Company estimates that completing this study will cost approximately US\$14,000 over the next 10 years.

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. The Company estimates that completing this trial will cost approximately US\$13,000 over the next 8 years.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars)

Years ended November 30, 2015 and 2014

29. Operating segments:

The Company has a single operating segment. As described in Note 4, almost all of the Company's revenues are generated from one customer, EMD Serono from December 1, 2014 to May 1, 2014 and RxCrossroads from May 12, 2014 to November 30, 2015, which are both domiciled in the United States.

	2015	2014
EMD Serono	\$ -	\$ 3,382
RxCrossroads	29,665	3,332
Others	390	18
	\$ 30,055	\$ 6,732

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

30. Related parties:

The key management personnel of the Company are the directors, including the President and Chief Executive Officer.

Key management personnel compensation comprises:

	2015	2014
Short-term employee benefits	\$ 1,134	\$ 1,039
Post-employment benefits	41	41
Share-based compensation	80	16
	\$ 1,255	\$ 1,096

On November 30, 2015, the Company's directors controlled 1.11% (2014 - 1.15%) of the voting shares of the Company.