

Interim Consolidated Financial Statements
(In thousands of United States dollars)

THERATECHNOLOGIES INC.

Three and nine-month periods ended August 31, 2019 and 2018
and as at December 1, 2017

(Unaudited)

THE RATECHNOLOGIES INC.

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(In thousands of United States dollars)
(Unaudited)

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THE RATECHNOLOGIES INC.

Interim Consolidated Statements of Financial Position
(In thousands of United States dollars)

As at August 31, 2019, November 30, 2018 and December 1, 2017
(Unaudited)

| | Note | August 31, 2019 | November 30, 2018 | December 1, 2017 |
|--|------|--------------------|----------------------|---------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash | | \$ 31,034 | \$ 38,997 | \$ 1,365 |
| Bonds and money market funds | | 10,933 | 9,691 | 16,524 |
| Trade and other receivables | | 11,374 | 10,952 | 7,553 |
| Inventories | 5 | 12,860 | 11,084 | 7,244 |
| Prepaid expenses and deposits | | 1,812 | 1,595 | 785 |
| Derivative financial assets | | 797 | 1,287 | 1,120 |
| Total current assets | | 68,810 | 73,606 | 34,591 |
| Non-current assets: | | | | |
| Bonds and money market funds | | 2,168 | 5,200 | 7,653 |
| Property and equipment | | 1,130 | 101 | 48 |
| Intangible assets | 6 | 22,537 | 15,121 | 16,888 |
| Other asset | | 13,425 | 17,088 | - |
| Total non-current assets | | 39,260 | 37,510 | 24,589 |
| Total assets | | \$ 108,070 | \$ 111,116 | \$ 59,180 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | | \$ 21,780 | \$ 25,830 | \$ 17,997 |
| Provisions | 7 | 2,245 | 1,014 | 584 |
| Current portion of long-term obligation | 8 | 3,382 | - | 3,627 |
| Deferred revenue | | 33 | 27 | - |
| Total current liabilities | | 27,440 | 26,871 | 22,208 |
| Non-current liabilities: | | | | |
| Long-term obligation | 8 | - | - | 3,524 |
| Convertible unsecured senior notes | 9 | 50,349 | 49,233 | - |
| Other liabilities | 10 | 259 | - | - |
| Total non-current liabilities | | 50,608 | 49,233 | 3,524 |
| Total liabilities | | 78,048 | 76,104 | 25,732 |
| Equity | | | | |
| Share capital | | 287,035 | 286,828 | 281,743 |
| Equity component of convertible unsecured senior notes | | 4,457 | 4,457 | - |
| Contributed surplus | | 9,525 | 8,788 | 12,389 |
| Deficit | | (271,007) | (264,966) | (260,604) |
| Accumulated other comprehensive income (loss) | | 12 | (95) | (80) |
| Total equity | | 30,022 | 35,012 | 33,448 |
| Commitments | 15 | | | |
| Total liabilities and equity | | \$ 108,070 | \$ 111,116 | \$ 59,180 |

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

THE RATECHNOLOGIES INC.

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

Periods ended August 31, 2019 and 2018
(Unaudited)

| | Note | For the three-month periods ended August 31, | | For the nine-month periods ended August 31, | |
|---|--------|---|---------|--|---------|
| | | 2019 | 2018 | 2019 | 2018 |
| | | \$ | \$ | \$ | \$ |
| Revenues | 3 | 16,111 | 13,523 | 46,816 | 31,234 |
| Operating expenses: | | | | | |
| Cost of sales: | | | | | |
| Cost of goods sold | | 5,215 | 3,325 | 15,371 | 5,860 |
| Other production related costs | | 1 | 91 | 53 | 91 |
| Royalties | | – | – | – | 1,340 |
| Amortization of other asset | | 1,221 | 1,221 | 3,663 | 1,221 |
| Research and development expenses | | 2,152 | 2,130 | 6,964 | 5,931 |
| Selling and market development expenses | | 6,389 | 5,189 | 18,809 | 16,460 |
| General and administrative expenses | | 1,772 | 1,482 | 5,072 | 3,963 |
| | | 16,750 | 13,438 | 49,932 | 34,866 |
| (Loss) profit from operating activities | | (639) | 85 | (3,116) | (3,632) |
| Finance income | 4 | 253 | 175 | 880 | 332 |
| Finance costs | 4 | (1,253) | (1,247) | (3,805) | (1,686) |
| | | (1,000) | (1,072) | (2,925) | (1,354) |
| Income tax recovery | | – | 1,269 | – | 1,269 |
| Net (loss) profit for the period | | (1,639) | 282 | (6,041) | (3,717) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Items that may be reclassified to profit (loss) in the future: | | | | | |
| Net change in fair value of FVOCI financial assets, net of tax | | 11 | 4 | 73 | (27) |
| Exchange differences on translation | | 29 | – | 34 | – |
| | | 40 | 4 | 107 | (27) |
| Total comprehensive loss for the period | | (1,599) | 286 | (5,934) | (3,744) |
| Basic and diluted loss per share | 11 (c) | (0,02) | – | (0,08) | (0,05) |

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

THE RATECHNOLOGIES INC.

Interim Consolidated Statements of Changes in Equity
(In thousands of United States dollars except per share amounts)

Nine-month period ended August 31, 2019
(Unaudited)

| For the nine-month period ended August 31, 2019 | | | | | | | | |
|---|------|-------------------|----------------|---------------------------------------|---------------------|------------------|---|---------------|
| | Note | Share capital | | Equity component of convertible notes | Contributed surplus | Deficit | Accumulated other comprehensive income (loss) | Total |
| | | Number of shares | Amount | | | | | |
| | | | | \$ | \$ | \$ | \$ | \$ |
| Balance as at November 30, 2018 | | 76,877,679 | 286,828 | 4,457 | 8,788 | (264,966) | (95) | 35,012 |
| Total comprehensive loss for the period | | | | | | | | |
| Net loss for the period | | - | - | - | - | (6,041) | - | (6,041) |
| Other comprehensive income: | | | | | | | | |
| Net change in fair value of financial assets at fair value through other comprehensive income, net of tax | | - | - | - | - | - | 73 | 73 |
| Exchange differences in translation | | - | - | - | - | - | 34 | 34 |
| Total comprehensive loss for the period | | - | - | - | - | (6,041) | 107 | (5,934) |
| Transactions with owners, recorded directly in equity | | | | | | | | |
| Issuance of common shares - Katana | 6 | 900 | 5 | - | - | - | - | 5 |
| Share-based compensation plan: | | | | | | | | |
| Share-based compensation for stock option plan | | - | - | - | 829 | - | - | 829 |
| Exercise of stock options: | | | | | | | | |
| Monetary consideration | | 74,832 | 110 | - | - | - | - | 110 |
| Attributed value | | - | 92 | - | (92) | - | - | - |
| Total contributions by owners | | 75,732 | 207 | - | 737 | - | - | 944 |
| Balance as at August 31, 2019 | | 76,953,411 | 287,035 | 4,457 | 9,525 | (271,007) | 12 | 30,022 |

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

THE RATECHNOLOGIES INC.

Interim Consolidated Statements of Changes in Equity (continued)
(In thousands of United States dollars except per share amounts)

Nine-month period ended August 31, 2018
(Unaudited)

| For the nine-month period ended August 31, 2018 | | | | | | | | |
|---|------|---------------------|---------|--|------------------------|-----------|---|---------|
| | Note | Share capital | | Equity component of convertible notes | Contributed surplus | Deficit | Accumulated other comprehensive income | Total |
| | | Number of shares | Amount | | | | | |
| | | | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance as at November 30, 2017 | | 74,962,050 | 281,743 | – | 12,389 | (260,604) | (80) | 33,448 |
| Total comprehensive loss for the period | | | | | | | | |
| Net loss for the period | | – | – | – | – | (3,717) | – | (3,717) |
| Recognition of previously unrecognized tax assets from item originally recorded in equity | | – | – | – | – | 338 | – | 338 |
| Other comprehensive income: | | | | | | | | |
| Net change in fair value of available-for-sale financial assets, net of tax | | – | – | – | – | – | (27) | (27) |
| Total comprehensive loss for the period | | – | – | – | – | (3,379) | (27) | (3,406) |
| Transactions with owners, recorded directly in equity | | | | | | | | |
| Equity component of convertible unsecured senior notes, net of income taxes of \$1,607 | | – | – | 4,457 | – | – | – | 4,457 |
| Share-based compensation plan: | | | | | | | | |
| Share-based compensation for stock option plan | | – | – | – | 678 | – | – | 678 |
| Exercise of stock options: | | | | | | | | |
| Monetary consideration | | 193,568 | 251 | – | – | – | – | 251 |
| Attributed value | | – | 203 | – | (203) | – | – | – |
| Exercise of broker option | | 39,390 | 121 | – | (26) | – | – | 95 |
| Issuance of common shares: | | | | | | | | |
| TaiMed | | 1,463,505 | 4,000 | – | (4,000) | – | – | – |
| Total contributions by owners | | 1,696,460 | 4,575 | 4,457 | (3,551) | – | – | 5,481 |
| Balance as at August 31, 2018 | | 76,658,513 | 286,318 | 4,457 | 8,838 | (263,983) | (107) | 35,523 |

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

THE RATECHNOLOGIES INC.

Interim Consolidated Statements of Cash Flows
(In thousands of United States dollars)

Periods ended August 31, 2019 and 2018
(Unaudited)

| | Note | For the three-month periods ended August 31, | | For the nine-month periods ended August 31, | |
|---|------|---|-----------------|--|-----------------|
| | | 2019 | 2018 | 2019 | 2018 |
| | | \$ | \$ | \$ | \$ |
| Cash provided from (used in): | | | | | |
| Operating | | | | | |
| Net (loss) profit | | (1,639) | 282 | (6,041) | (3,717) |
| Adjustments for: | | | | | |
| Depreciation of property and equipment | | 67 | 7 | 132 | 15 |
| Amortization of intangible assets and other asset | | 1,862 | 1,708 | 5,433 | 2,501 |
| Share-based compensation for stock option plan | | 271 | 182 | 855 | 678 |
| Write-down of inventories | 5 | – | 110 | 3 | 106 |
| Change in fair value of derivative financial assets | | 243 | 411 | 503 | (630) |
| Change in fair value of liability related to deferred stock unit plan | | (243) | (406) | (499) | 624 |
| Interest income | | (253) | (175) | (880) | (332) |
| Interest received | | 265 | 201 | 953 | 439 |
| Foreign exchange gain (loss) | | (70) | 83 | 54 | 109 |
| Accretion expense | | 428 | 269 | 1,233 | 682 |
| Deferred income tax recovery | | – | (1,269) | – | (1,269) |
| Loss on repayment of long-term obligation | | – | 286 | – | 286 |
| Lease inducements and amortization | | 5 | – | 233 | – |
| | | 936 | 1,689 | 1,979 | (508) |
| Changes in operating assets and liabilities: | | | | | |
| Trade and other receivables | | 2,042 | (3,792) | (427) | (4,028) |
| Inventories | | 1 | (118) | (1,779) | (1,463) |
| Prepaid expenses | | (160) | (288) | (221) | (396) |
| Accounts payable and accrued liabilities | | 1,056 | 3,610 | (3,883) | 3,902 |
| Provisions | | 720 | (64) | 1,231 | 402 |
| Deferred revenue | | (38) | – | 5 | – |
| | | 3,621 | (652) | (5,074) | (1,583) |
| Cash flows used in operating activities | | 4,557 | 1,037 | (3,095) | (2,091) |
| Financing | | | | | |
| Repayment of long-term obligation | 8 | (3,500) | (3,850) | (3,500) | (7,850) |
| Proceeds from issue of convertible unsecured senior notes | 9 | – | 57,500 | – | 57,500 |
| Convertible unsecured senior notes issue costs | | – | (2,717) | – | (2,717) |
| Proceeds from exercise of stock options | | – | 1 | 110 | 252 |
| Proceeds from exercise of broker options | | – | – | – | 95 |
| Cash flows from financing activities | | (3,500) | 50,934 | (3,390) | 47,280 |
| Investing | | | | | |
| Acquisition of bonds and money market funds | | (41) | (3,466) | (158) | (17,586) |
| Proceeds from sale of bonds and money market funds | | – | 3,046 | 1,932 | 24,918 |
| Acquisition of other asset | 6 | – | (19,530) | – | (19,530) |
| Acquisition of intangible assets | | (7) | – | (2,031) | (17) |
| Proceeds from disposal of derivative financial assets | | – | – | – | 26 |
| Acquisition of derivative financial assets | | (15) | (26) | (15) | (26) |
| Acquisition of property and equipment | | (40) | (16) | (1,197) | (20) |
| Cash flows used in investing activities | | (103) | (19,992) | (1,469) | (12,235) |
| Net change in cash | | 954 | 31,979 | (7,954) | 32,954 |
| Cash, beginning of period | | 30,089 | 2,340 | 38,997 | 1,365 |
| Effect of foreign exchange on cash | | (9) | – | (9) | – |
| Cash, end of period | | 31,034 | 34,319 | 31,034 | 34,319 |

See Note 11 for supplemental cash flow information.

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

Theratechnologies Inc.

Notes to Interim Consolidated Financial Statements

(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018

(Unaudited)

Theratechnologies Inc. is a commercial-stage biopharmaceutical company addressing unmet medical needs by bringing to market specialized therapies for people with orphan medical conditions, including those living with HIV.

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

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

1. Basis of preparation:

(a) Accounting framework:

These unaudited interim consolidated financial statements ("interim financial statements"), including comparative information, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

Certain information, in particular the accompanying notes normally included in the annual consolidated financial statements prepared in accordance with IFRS, has been omitted or condensed. These interim financial statements do not include all disclosures required under IFRS and, accordingly, should be read in conjunction with the annual consolidated financial statements for the year ended November 30, 2018 and the notes thereto.

These interim financial statements have been authorized for issue by the Company's Audit Committee on October 7, 2019.

(b) Summary of accounting policies:

Except as described in Note 2(b), the significant accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended November 30, 2018 have been applied consistently in the preparation of these interim financial statements.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018
(Unaudited)

1. Basis of preparation (continued):

(c) Basis of measurement:

The Company's interim financial statements have been prepared on a going concern and historical cost bases, except for financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, derivative financial assets and liabilities, related to cash-settled share-based arrangements and derivative financial liabilities, which are measured at fair value. Equity-classified share-based payment arrangements are measured at fair value at grant date pursuant to IFRS 2, Share-based payment.

The methods used to measure fair value are discussed further in Note 14.

(d) Use of estimates and judgments:

The preparation of the Company's interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements, and the reported amounts of revenues and expenses during the reporting periods.

Information about critical judgments in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the interim financial statements are disclosed in Note 1 of the annual consolidated financial statements as at November 30, 2018.

(e) Functional and presentation currency:

The Company's functional currency is the United States dollar ("USD"). Prior to these interim financial statements, beginning on December 1, 2018, the presentation currency was the Canadian dollar ("CAD"). In 2019, management decided to change the presentation currency from the CAD to the USD to better reflect the market the Company operates in. As such, these interim financial statements are now presented in USD, together with the comparative numbers as at November 30, 2018 and for the three and nine-month periods ended August 31, 2018. The Company has also presented an opening consolidated statement of financial position as at December 1, 2017 in USD.

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

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018
(Unaudited)

2. Recent changes in accounting standards:

(a) Adoption of new accounting policies in the reporting periods:

Amendments to IFRS 3, Business Combinations (Definition of a Business)

On October 22, 2018, the IASB issued amendments to IFRS 3, *Business Combinations*, that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Early application is permitted. The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The Company early adopted the amendments with a date of initial application of December 1, 2018 and applied the amendment in connection with the Katana acquisition (Note 6).

IFRS 9, *Financial Instruments*

The Company adopted all of the requirements of IFRS 9, *Financial Instruments* ("IFRS 9") with a date of initial application of December 1, 2018. IFRS 9 does not require restatement of comparative periods. This standard establishes principles for the financial reporting classification and measurement of financial assets and financial liabilities. This standard also incorporates a new hedging model which increases the scope of hedged items eligible for hedge accounting and aligns hedge accounting more closely with risk management. This standard also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. This new standard increases required disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the consolidated financial statements.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39, *Financial Instruments - Recognition and Measurement* ("IAS 39"). The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018
(Unaudited)

2. Recent changes in accounting standards (continued):

(a) Adoption of new accounting policies in the reporting periods (continued):

IFRS 9, *Financial Instruments* (continued)

The following summarizes the classification and measurement changes for the Company's non-derivative and derivative financial assets and financial liabilities as a result of the adoption of IFRS 9.

| | IAS 39 | IFRS 9 |
|--|-----------------------------------|---|
| Financial assets: | | |
| Cash | Loans and receivables | Amortized cost |
| Bonds | Available for sale | Fair value through other comprehensive income |
| Money market funds | Available for sale | Fair value through profit or loss |
| Trade and other receivables | Loans and receivables | Amortized cost |
| Non-hedge derivative assets | Fair value through profit or loss | Fair value through profit or loss |
| Financial liabilities: | | |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost |
| Convertible unsecured senior notes | Other financial liabilities | Amortized cost |
| Long-term obligation | Other financial liabilities | Amortized cost |

The accounting for these instruments and the line item in which they are included in the balance sheet were unaffected by the adoption of IFRS 9, except for money market funds for which fair value was measured through other comprehensive income under IAS 39 and is now measured through profit or loss under IFRS 9.

The new expected credit loss ("ECL") impairment model applies to financial assets measured at amortized cost and debt investments at fair value through other comprehensive income ("FVOCI"). The Company has determined that the application of IFRS 9's impairment requirements as at December 1, 2018 results in no adjustment for the allowance for impairment on trade and other receivables. Over 97% of the Company's revenue is attributable to sales transactions with one customer: RxCrossroads (see Note 16). As at December 1, 2018 and August 31, 2019, none of the trade and other receivables were overdue and the total allowance for impairment of receivables recorded during the period was nil.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018
(Unaudited)

2. Recent changes in accounting standards (continued):

(a) Adoption of new accounting policies in the reporting periods (continued):

IFRS 9, *Financial Instruments* (continued)

The Company also holds bonds that are classified and measured at FVOCI. Bonds held are mostly issued by government and municipalities, which have a high credit rating. As per IFRS 9, for the purposes of the impairment test, the credit risk on the bonds held is considered low as the borrowers have a strong capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. As such, as of transition date, management has assumed that the risk on these financial instruments has not increased since initial recognition. The Company assessed the expected credit loss over a 12-month period to be minimal and impairment recorded during the period was nil.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. The Company has adopted IFRS 15 using the modified retrospective method without practical expedients, with the effect of initially applying this standard recognized at the date of initial application of December 1, 2018. Accordingly, the information presented for 2018 has not been restated. The adoption of the standard did not have a material impact on the financial statements.

(b) Update to significant accounting policies:

As a result to the initial adoption of IFRS 9 and IFRS 15, as described above, the Company has updated its significant accounting policies as follows:

Revenue from contracts with customers

Net sales

The Company derives revenue from the sale of finished goods, which include Trogarzo® and EGRIFTA®. The Company recognizes revenue at a point in time when it transfers control of the finished goods to a customer, which generally occurs upon delivery of the finished goods to the customer's premises.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018
(Unaudited)

2. Recent changes in accounting standards (continued):

(b) Update to significant accounting policies (continued):

Revenue from contracts with customers (continued)

Net sales (continued)

Some arrangements for the sale of finished goods provide for customer cash discounts for prompt payment, allowances, rights of return, rebates on sales made under governmental and commercial rebate programs, chargebacks on sales made to government agencies and retail pharmacies and distribution fees, which gives rise to variable consideration. At the time of sale, estimates are made for items giving rise to variable consideration based on the terms of the arrangement. The variable consideration is estimated at contract inception using the most likely amount method and revenue is only recognized to the extent that a significant reversal of revenue is not expected to occur. The estimate is based on historical experience, current trends, relevant statutes with respect to governmental pricing programs, contractual sales terms, contractual terms with distributors and other known factors. Sales are recorded net of customer discounts, rebates, chargebacks, distribution fees and estimated sales returns, and exclude sales taxes. A refund liability and a right to recover returned goods asset are recognized for expected returns in relation to sales made before the end of the reporting period. The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The Company reviews its estimate of expected returns on a quarterly basis, adjusting for the amounts of the asset and liability accordingly.

Financial instruments

Financial assets

The Company initially recognizes financial assets on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or issue. On initial recognition, the Company classifies its financial assets as measured at amortized cost, FVOCI or fair value through profit or loss ("FVPL"), depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018
(Unaudited)

2. Recent changes in accounting standards (continued):

(b) Update to significant accounting policies (continued):

Financial instruments (continued)

Financial assets (continued)

(i) Financial assets measured at amortized cost

A financial asset is measured at amortized cost, using the effective interest method and net of any impairment loss, if it meets both of the following conditions and is not designated at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company currently classifies its cash and trade and other receivables as financial assets measured at amortized cost.

(ii) Financial assets measured at fair value through other comprehensive income

A debt investment is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated at fair value through profit or loss:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. When an investment is derecognized, gains or losses accumulated in other comprehensive income are reclassified to profit or loss.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018
(Unaudited)

2. Recent changes in accounting standards (continued):

(b) Update to significant accounting policies (continued):

Financial instruments (continued)

Financial assets (continued)

(ii) Financial assets measured at fair value through other comprehensive income (continued)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. These assets are subsequently measured at fair value. Dividends are recognized in profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment, and other net gains and losses are recognized in other comprehensive income and are never reclassified in profit or loss.

The Company currently classifies its bonds as financial assets measured at fair value through other comprehensive income.

(iii) Financial assets measured at fair value through profit or loss

All financial assets not classified as measured at amortized cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. These assets are subsequently measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss. The Company currently classifies its money market funds as financial assets measured at fair value.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018
(Unaudited)

2. Recent changes in accounting standards (continued):

(b) Update to significant accounting policies (continued):

Financial instruments (continued)

Financial liabilities

Financial liabilities are classified into the following categories:

(i) Financial liabilities at fair value through profit or loss

A financial liability is classified at fair value through profit or loss if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at fair value are measured at fair value and net gains and losses, including interest expense, are recognized in profit or loss. The Company currently has no financial liabilities measured at fair value through profit or loss.

(ii) Financial liabilities measured at amortized cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. A financial liability is subsequently measured at amortized cost using the effective interest method. The Company currently classifies accounts payable and accrued liabilities, convertible unsecured senior notes and long-term obligation as financial liabilities measured at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Impairment

Financial assets

At each reporting date, the Company recognizes loss allowances for ECLs on financial assets carried at amortized cost and debt securities at FVOCI. The Company's trade and other receivables are accounts receivable with no financing component and which have maturities of less than 12 months and, as such, the Company has chosen to apply the simplified approach for ECL. As a result, the Company does not track changes in credit risk related to its trade and other receivables, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018
(Unaudited)

2. Recent changes in accounting standards (continued):

(b) Update to significant accounting policies (continued):

Impairment (continued)

Financial assets (continued)

For other financial assets subject to impairment, the Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company considers a debt security to have a low credit risk when its credit risk rating is equivalent or above investment grade credit rating such as its bonds classified at FVOCI.

The Company's approach to ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

3. Disaggregation of revenue:

Net sales by product were as follows:

| | For the three-month periods ended August 31, | |
|---------------------------------------|--|-----------|
| | 2019 | 2018 |
| <i>EGRIFTA</i> [®] net sales | \$ 9,188 | \$ 9,810 |
| Trogarzo [®] net sales | 6,923 | 3,713 |
| | <hr/> | <hr/> |
| | \$ 16,111 | \$ 13,523 |

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018
(Unaudited)

3. Disaggregation of revenue (continued):

| | For the nine-month periods ended August 31, | |
|---------------------------------------|---|-----------|
| | 2019 | 2018 |
| <i>EGRIFTA</i> [®] net sales | \$ 26,789 | \$ 26,597 |
| Trogarzo [®] net sales | 20,027 | 4,637 |
| | \$ 46,816 | \$ 31,234 |

4. Finance income and finance costs:

| | For the three-month periods ended August 31, | |
|---|---|---------|
| | 2019 | 2018 |
| | \$ | \$ |
| Interest income | 253 | 175 |
| Finance income | 253 | 175 |
| Accretion expense | (428) | (269) |
| Loss on repayment of long-term obligation | – | (286) |
| Interest on convertible unsecured senior notes | (847) | (661) |
| Bank charges | (5) | (3) |
| Net foreign currency loss (gain) | 27 | (23) |
| Loss on financial instruments carried at fair value | – | (5) |
| Finance costs | (1,253) | (1,247) |
| Net finance cost recognized in net profit or loss | (1,000) | (1,072) |

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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Periods ended August 31, 2019 and 2018
(Unaudited)

4. Finance income and finance costs (continued):

| | For the nine-month periods ended August 31, | |
|--|--|---------|
| | 2019 | 2018 |
| | \$ | \$ |
| Interest income | 880 | 332 |
| Finance income | 880 | 332 |
| Accretion expense | (1,233) | (682) |
| Loss on repayment of long-term obligation | – | (286) |
| Interest on convertible unsecured senior notes | (2,493) | (661) |
| Bank charges | (19) | (17) |
| Net foreign currency loss | (56) | (45) |
| (Gain) loss on financial instruments carried at fair value | (4) | 5 |
| Finance costs | (3,805) | (1,686) |
| Net finance cost recognized in net profit or loss | (2,925) | (1,354) |

5. Inventories:

For the nine-month periods, inventories were written down to net realizable value by an amount of \$3 in 2019 (2018 - \$106), of which nil (2018 - \$89) is recorded in cost of sales as other production related costs and \$3 (2018 - \$17) was recorded in cost of goods sold.

The write-downs in 2019 and 2018 are related to losses incurred during the conversion of raw materials to finished goods and losses associated with expired goods.

THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
(In thousands of United States dollars except for share and per share amounts)

Periods ended August 31, 2019 and 2018
(Unaudited)

6. Intangible assets:

| | Commercialization rights - Trogarzo® North American Territory | Commercialization rights - Trogarzo® European Territory | Commercialization rights - EGRIFTA® | Oncology Platform | Total |
|--|--|--|---|----------------------|-----------|
| Cost | | | | | |
| Balance as at November 30, 2017 and 2018 | \$ 5,207 | \$ 3,055 | \$ 14,041 | \$ - | \$ 22,303 |
| Additions | 6,765 | - | - | 2,421 | 8,810 |
| Balance as at August 31, 2019 | \$ 11,972 | \$ 3,055 | \$ 14,041 | \$ 2,421 | \$ 31,489 |
| Accumulated amortization | | | | | |
| Balance as at November 30, 2017 | \$ - | \$ - | \$ 5,415 | \$ - | \$ 5,415 |
| Amortization | 257 | - | 1,510 | - | 1,767 |
| Balance as at November 30, 2018 | 257 | - | 6,925 | - | 7,182 |
| Amortization | 636 | - | 1,134 | - | 1,770 |
| Balance as at August 31, 2019 | \$ 893 | \$ - | \$ 8,059 | \$ - | \$ 8,952 |
| Carrying amounts | | | | | |
| August 31, 2019 | \$ 11,079 | \$ 3,055 | \$ 5,982 | \$ 2,421 | \$ 22,537 |
| November 30, 2018 | 4,950 | 3,055 | 7,116 | - | 15,121 |
| December 1, 2017 | 5,207 | 3,055 | 8,626 | - | 16,888 |

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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Periods ended August 31, 2019 and 2018
(Unaudited)

6. Intangible assets (continued):

The amortization expense of \$1,770 (2018 - \$1,280) is included in selling and market development expenses.

Commercialization rights - Trogarzo® North American Territory

In the three-month period ended February 28, 2019, the Company accrued and recorded the first commercial milestone payment under the terms of its distribution and marketing agreement with TaiMed ("TaiMed Agreement") for an amount of \$6,765 (Note 8) as the Company determined that it was probable that the milestone would be paid.

Commercialization rights - Trogarzo® European Territory

On September 26, 2019, Trogarzo was approved for sale in Europe by the European Commission.

Oncology Platform

On February 25, 2019, the Company acquired Katana Biopharma Inc. ("Katana"). On May 21, 2019, Katana was wound up into the Company and then dissolved.

Katana (now the Company) is the worldwide exclusive licensee of a technology platform using peptides as a vehicle to specifically deliver existing cytotoxic agents to sortilin receptors, which are overexpressed on cancer cells. The license was entered into on February 25, 2019 with Transfert Plus, L.P. (Transfert Plus), (an affiliate of Aligo Innovation, a university research company that commercializes the research results of universities and other institutional partners from various areas of innovation, including life sciences) (the "License Agreement").

This acquisition was accounted for as an asset acquisition. The Company recorded additions to intangible assets during 2019 of \$2,045, which represented the payment at closing of \$1,965 in cash, \$5 through the issuance of 900 common shares of the Company and \$75 of acquisition costs. The intangible asset is currently not being amortized. Amortization will begin when the asset is available for use.

Under the terms of the acquisition agreement, the purchase price is also subject to two milestone payments. The first milestone payment will occur when the first patient is enrolled in a Phase 1 clinical study. At that time, CAD2 million will be paid through the issuance of common shares of the Company.

The second milestone payment of CAD2.3 million will occur when the proof of concept is demonstrated in human subjects and will be satisfied through the issuance of common shares of the Company.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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Periods ended August 31, 2019 and 2018
(Unaudited)

6. Intangible assets (continued):

Oncology Platform (continued)

In addition, in August 2019, the acquisition agreement was amended to provide for an adjustment to the purchase price of CAD1.08 million in the event the Company could indirectly benefit from a CAD1.2 million subsidy in connection with its research and development activities. The subsidy was granted in October 2019. The adjustment will be payable in two installments. The first installment of CAD500 is payable in October 2019, whereas the second installment of CAD580 will be payable at the same time as the CAD2.3 million milestone referred to above.

Milestone payments are recorded in the cost of the intangible asset when it is probable that they will be paid. Accordingly, as at August 31, 2019, the first installment of \$376 (CAD500) was recognized.

Under the License Agreement, Katana (now the Company) obtained the exclusive worldwide rights to develop, make, have made, use, sell, offer to sell, distribute, commercialize and import the technology related to the technology platform that uses peptides as a vehicle to deliver existing cytotoxic agents to sortilin receptors which are overexpressed on cancer cells.

Annual maintenance fees amount to CAD25 thousand for the first 5 years and CAD100 thousand thereafter, until royalties become payable beginning with the first commercial sale of a product developed using the licensed technology.

The royalties payable under the License Agreement vary between 1% to 2.5% on net sales of a product based on the licensed technology. If the Company enters into a sublicense agreement, it must then pay amounts varying between 5% to 15% of revenues received from such sublicense agreement.

The Company must also pay Transfert Plus the following milestone payments upon the occurrence of the following development milestones for the first product developed in the field of oncology:

- (i) First Milestone Payment: CAD50 thousand upon the successful enrolment of the first patient in the first Phase 1 human clinical trial;
- (ii) Second Milestone Payment: CAD100 thousand upon the successful enrolment of the first patient in the first Phase 2 human clinical trial;
- (iii) Third Milestone Payment: CAD200 thousand upon the successful enrolment of the first patient in the first Phase 3 human clinical trial.

Also, the Company must pay CAD200 thousand for each product upon receiving the first approval for such product by a regulatory authority. The approval shall entitle the holder thereof to commercialize the product in the territory in which the approval was obtained.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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Periods ended August 31, 2019 and 2018
(Unaudited)

6. Intangible assets (continued):

Oncology Platform (continued)

The Company must also pay Transfert Plus the same milestone payments upon the occurrence of any of those development milestones for the first product developed outside the field of oncology.

7. Provisions:

| | Chargebacks and rebates | Returns | Total |
|---------------------------------|----------------------------|---------|----------|
| Balance as at December 1, 2017 | \$ 495 | \$ 89 | \$ 584 |
| Provisions made | 7,144 | 657 | 7,801 |
| Provisions used | (6,744) | (627) | (7,371) |
| Balance as at November 30, 2018 | 895 | 119 | 1,014 |
| Provisions made | 7,295 | 126 | 7,421 |
| Provisions used | (6,145) | (45) | (6,190) |
| Balance as at August 31, 2019 | \$ 2,045 | \$ 200 | \$ 2,245 |

8. Long-term obligation:

| | |
|-------------------------------------|----------|
| First commercial milestone (note 6) | \$ 3,382 |
| Current portion | (3,382) |
| Non-current portion | \$ — |

Under the terms of the TaiMed Agreement, a commercial milestone of \$7,000 is payable in two equal annual installments of \$3,500 after achieving aggregate net sales of \$20,000 over four consecutive quarters of the Company's financial year. The Company accrued the discounted value of the obligation during the quarter ended February 28, 2019 because it was probable of being achieved. The milestone was achieved during the quarter ended May 31, 2019. The first payment of \$3,500 was made in July 2019 and the second payment will be made in June 2020.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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Periods ended August 31, 2019 and 2018
(Unaudited)

8. Long-term obligation (continued):

The movement of the long-term obligation for the current period is as follows:

| | | |
|-------------------------------------|----|---------|
| Balance as at November 30, 2018 | \$ | – |
| First commercial milestone (note 6) | | 6,765 |
| Accretion expense | | 117 |
| Payment | | (3,500) |
| Balance as at August 31, 2019 | \$ | 3,382 |

9. Convertible unsecured senior notes:

The movement in the carrying value of the convertible unsecured senior notes is as follows:

| | | |
|--|----|---------|
| Proceeds allocated to liability component | \$ | 51,122 |
| Transaction costs | | (2,517) |
| At date of issuance (June 19, 2018) | | 48,605 |
| Accretion expense | | 628 |
| Convertible unsecured senior notes as at November 30, 2018 | | 49,233 |
| Accretion expense | | 1,116 |
| Convertible unsecured senior notes as at August 31, 2019 | \$ | 50,349 |

| | | August 31, 2019 |
|---|----|-----------------|
| Interest accrued | \$ | 562 |
| Interest paid | | 1,653 |
| Interest paid for the nine-month period | | 3,417 |

10. Other liabilities:

| | | August 31, 2019 |
|---|----|-----------------|
| Deferred lease inducements | \$ | 233 |
| Stock appreciation rights (note 11 (b)) | | 26 |
| | \$ | 259 |

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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Periods ended August 31, 2019 and 2018
(Unaudited)

11. Share capital:

(a) Stock option plan:

The Company has established a stock option plan (the "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 6,580,000 options can be granted under the Plan. Generally, the options vest at the grant date or over a period of up to three years. As at August 31, 2019, 1,632,851 options could still be granted by the Company (August 31, 2018 - 1,950,762) under the Plan.

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

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

| | Number of options | Weighted average exercise price per option | |
|--|----------------------|--|----------------|
| | | CAD | USD |
| Options as at November 30, 2017 | 2,335,895 | \$ 2.21 | \$ 1.71 |
| Granted | 251,544 | 9.56 | 7.49 |
| Expired | (2,000) | 8.50 | 6.74 |
| Exercised (share price: CAD9.56 - USD7.50) | (193,568) | 1.66 | 1.30 |
| Options as at August 31, 2018 | 2,391,871 | \$ 3.02 | \$ 2.31 |
| Options as at November 30, 2018 | 2,172,705 | \$ 3.15 | \$ 2.37 |
| Granted | 406,400 | 8.19 | 6.20 |
| Forfeited | (88,489) | 6.07 | 4.56 |
| Exercised (share price: CAD7.78 - USD5.82) | (74,832) | 1.96 | 1.46 |
| Options outstanding as at August 31, 2019 | 2,415,784 | \$ 3.94 | \$ 2.96 |

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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Periods ended August 31, 2019 and 2018
(Unaudited)

11. Share capital (continued):

(a) Stock option plan (continued):

During the nine-month period ended August 31, 2019, \$829 (2018 - \$678) were recorded as share-based compensation expense for the stock option plan. The fair value of options granted in 2019 was estimated at the grant date using the Black-Scholes model and the following weighted average assumptions:

| | For the nine-month periods ended August 31, | |
|-------------------------|--|---------|
| | 2019 | 2018 |
| Risk-free interest rate | 2.15% | 2.14% |
| Expected volatility | 57% | 47% |
| Average option life | 8 years | 7 years |
| Expected dividends | — | — |
| Grant-date share price | \$6.15 (CAD 8.19) | \$9.56 |
| Option exercise price | \$6.15 (CAD 8.19) | \$9.56 |

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 RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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Periods ended August 31, 2019 and 2018
(Unaudited)

11. Share capital (continued):

(a) Stock option plan (continued):

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

| | 2019 | | For the nine-month periods ended August 31, 2018 | |
|-----------------|-------------------|--|--|--|
| | Number of options | Weighted average grant-date fair value | Number of options | Weighted average grant-date fair value |
| | | \$ | | \$ |
| Options granted | 406,400 | 3.69 (CAD 4.92) | 251,544 | 3.63 (CAD 4.63) |

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

(b) Stock appreciation rights ("SARs"):

On October 4, 2018, the Company's Board of Directors approved a SARs plan for its consultants that entitles the grantee to receive a cash payment based on the increase in the stock price of the Company's common shares from the grant date to the settlement date. The exercise date of an SAR may not be later than 10 years after the grant date. Generally, the SARs vest over a period up to three years.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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(Unaudited)

11. Share capital (continued):

(b) Stock appreciation rights ("SARs") (continued):

During the nine-month period ended August 31, 2019, \$26 (2018 - nil) was recorded as share-based compensation expense for the SARs plan. Since these awards will be cash-settled, the fair value of SARs granted in 2019 is estimated at each reporting period using the Black-Scholes model and the following weighted average assumptions:

| | Measurement date as at August 31, 2019 |
|------------------------------|---|
| Risk-free interest rate | 1.16% |
| Expected volatility | 57% |
| Average option life in years | 8 years |
| Grant-date share price | \$3.74 (CAD4.98) |
| Option exercise price | \$3.74 (CAD4.98) |

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 SAR. The volatility is based on weighted average historical volatility adjusted for changes expected due to publicly available information. The life of the SARs is estimated taking into consideration the vesting period at the grant date, the life of the SARs 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 grant date weighted average fair value of SARs granted during the period ended:

| | For the nine-month period ended August 31 | |
|------|---|---|
| | Number of SARs | Weighted average grant date fair value |
| 2019 | 40,000 | \$2.10 (CAD2.80) |

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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Periods ended August 31, 2019 and 2018
(Unaudited)

11. Share capital (continued):

(c) Loss per share:

For the three and nine-month periods ended August 31, 2019, the weighted average number of common shares outstanding was calculated as follows:

| | For the three-month periods ended August 31, | |
|---|---|-------------------|
| | 2019 | 2018 |
| Issued common shares as at June 1 | 76,953,411 | 76,658,013 |
| Effect of share options exercised | – | 5 |
| Weighted average number of common shares | 76,953,411 | 76,658,018 |

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

| | For the three-month periods ended August 31, | |
|---|---|-------------------|
| | 2019 | 2018 |
| Weighted average number of common shares | 76,953,411 | 76,658,018 |
| Effect of potential dilutive share options | – | 1,720,424 |
| Weighted average number of diluted common shares - diluted | 76,953,411 | 78,378,442 |

| | For the nine-month periods ended August 31, | |
|--|--|-------------------|
| | 2019 | 2018 |
| Issued common shares as at December 1 | 76,877,679 | 74,962,050 |
| Effect of share options exercised | 41,646 | 111,727 |
| Effect of issue of common shares - oncology platform (note 6) | 618 | – |
| Effect of exercise of broker options | – | 20,340 |
| Effect of issue of common shares - TaiMed | – | 582,197 |
| Weighted average number of common shares | 76,919,943 | 75,676,314 |

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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Periods ended August 31, 2019 and 2018
(Unaudited)

11. Share capital (continued):

(c) Loss per share (continued):

For the three and nine-month periods ended August 31, 2019, 2,455,784 share options (2018 - 215,314 share options and 3,872,053 common shares potentially issuable from conversion of the US\$57,500 aggregate principal amount of notes (note 9)) that may potentially dilute earnings per share in the future, were excluded from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive.

12. Supplemental cash flow disclosures:

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

| | For the three-month period ended August 31, 2019 |
|--|---|
| Additions to property and equipment included in accounts payable and accrued liabilities | \$ 12 |
| Additions to intangible assets included in accounts payable and accrued liabilities | 385 |

| | For the nine-month period ended August 31, 2019 |
|--|--|
| Additions to property and equipment included in accounts payable and accrued liabilities | \$ 12 |
| Additions to intangible assets included in accounts payable and accrued liabilities | 385 |
| Additions to intangible assets included in long-term obligation | 3,265 |
| Issuance of shares in connection with acquisitions of intangible assets | 5 |

13. Financial instruments:

The nature and extent of the Company's exposure to risks arising from financial instruments are consistent with the disclosure in the annual consolidated financial statements as at November 30, 2018.

THE RATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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14. Determination of fair values:

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

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 financial liabilities

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

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

The fair value of the convertible unsecured notes, including the equity portion, as at August 31, 2019 were approximately \$51,750 (Level 1) based on market quotes.

The long-term obligation was 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 4.2%. The Company has determined that the carrying value of the obligation approximates its fair value.

THERATECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements (continued)
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(Unaudited)

14. Determination of fair values (continued):

Share-based payment transactions

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

The deferred stock units 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 of the common shares of the Company.

15. Commitments:

On August 15, 2019, the Company entered into a lease agreement for its European headquarter.

As at August 31, 2019, the minimum payments required under the terms of the non-cancellable leases are as follows:

| | | | |
|----------------------|--|----|-------|
| Less than one year | | \$ | 553 |
| One to five years | | | 2,412 |
| More than five years | | | 1,194 |
| | | \$ | 4,159 |

16. Operating segments:

The Company has a single operating segment. Almost all of the Company's revenues are generated from one customer, RxCrossroads, which is domiciled in the United States.

| | | 2019 | | 2018 |
|--------------|----|--------|----|--------|
| RxCrossroads | \$ | 45,318 | \$ | 30,920 |
| Other | | 1,498 | | 314 |
| | \$ | 46,816 | \$ | 31,234 |

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