

Consolidated Financial Statements
(In thousands of United States dollars)

THERATECHNOLOGIES INC.

November 30, 2021 and 2020

THE RATECHNOLOGIES INC.

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(In thousands of United States dollars)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Theratechnologies Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Theratechnologies Inc. (the "Company") as of November 30, 2021 and 2020, the related consolidated statements of net loss and comprehensive loss, changes in equity, and cash flows for the years ended November 30, 2021 and 2020, and the related notes (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of November 30, 2021 and 2020, and its financial performance and its cash flows for the years ended November 30, 2021 and 2020, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.



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Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

We have served as the Company's auditor since 1993.

Montréal, Canada
February 23, 2022

THE RATECHNOLOGIES INC.

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

As at November 30, 2021 and 2020

	Note	November 30, 2021	November 30, 2020
Assets			
Current assets			
Cash		\$ 20,399	\$ 12,737
Bonds and money market funds	6	19,955	8,031
Trade and other receivables	7	10,487	12,430
Tax credits and grants receivable	8	441	755
Inventories	9	29,141	25,145
Prepaid expenses and deposits	10	10,745	5,189
Derivative financial assets	21(d)	740	520
Total current assets		91,908	64,807
Non-current assets			
Property and equipment	11	743	865
Right-of-use-assets	12	2,111	2,618
Intangible assets	13	21,388	24,529
Deferred financing costs	21(c)	621	-
Other asset	14	2,441	7,323
Total non-current assets		27,304	35,335
Total assets		\$ 119,212	\$ 100,142
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15	\$ 40,376	\$ 34,815
Provisions	16	4,123	1,947
Other obligations	17	-	4,666
Current portion of lease liabilities	19	463	425
Income taxes payable		60	16
Deferred revenue		54	50
Total current liabilities		45,076	41,919
Non-current liabilities			
Convertible unsecured senior notes	18	54,227	52,403
Lease liabilities	19	2,055	2,555
Other liabilities	20	94	41
Total non-current liabilities		56,376	54,999
Total liabilities		101,452	96,918
Equity			
Share capital and warrants	21	335,752	287,312
Equity component of convertible unsecured senior notes		4,457	4,457
Contributed surplus		12,843	12,065
Deficit		(335,248)	(300,129)
Accumulated other comprehensive loss	21(i)	(44)	(481)
Total equity		17,760	3,224
Commitments	27		
Subsequent events	30		
Total liabilities and equity		\$ 119,212	\$ 100,142

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

Approved by the Board of Directors

(signed) Alain Trudeau Director

(signed) Gérald Lacoste Director

THE RATECHNOLOGIES INC.

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

Years ended November 30, 2021 and 2020

	Note	2021	2020
Revenue	3	\$ 69,823	\$ 66,053
Operating expenses			
Cost of sales			
Cost of goods sold		18,378	20,970
Other production-related costs		-	1,051
Amortization of other asset	14	4,882	4,881
Research and development expenses net of tax credits of \$277 (2020 – \$296)		28,274	18,019
Selling expenses		28,909	26,859
General and administrative expenses		14,616	12,230
Total operating expenses		95,059	84,010
Loss from operating activities		(25,236)	(17,957)
Finance income	5	195	717
Finance costs	5	(6,621)	(5,411)
		(6,426)	(4,694)
Loss before income taxes		(31,662)	(22,651)
Income taxes		(63)	(16)
Net loss		(31,725)	(22,667)
Other comprehensive income (loss), net of tax			
Items that may be reclassified to net profit (loss) in the future			
Net change in fair value of financial assets at fair value through other comprehensive income (FVOCI)		(197)	14
Exchange differences on translation of foreign operations		634	(516)
		437	(502)
Total comprehensive loss		\$ (31,288)	\$ (23,169)
Loss per share			
Basic and diluted	21(h)	\$ (0.34)	\$ (0.29)

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

THE RATECHNOLOGIES INC.

Consolidated Statements of Changes in Equity
(In thousands of United States dollars)

Years ended November 30, 2021 and 2020

	Note	Share capital and warrants		Equity component of convertible unsecured senior notes	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total
		Number of shares	Amount					
Balance as at November 30, 2019		76,953,411	\$ 287,035	\$ 4,457	\$ 10,783	\$ (277,462)	\$ 21	\$ 24,834
Total comprehensive loss								
Net loss		-	-	-	-	(22,667)	-	(22,667)
Other comprehensive income								
Net change in fair value of FVOCI financial assets		-	-	-	-	-	14	14
Exchange differences on translation of foreign operations		-	-	-	-	-	(516)	(516)
Total comprehensive loss		-	-	-	-	(22,667)	(502)	(23,169)
Share-based compensation plan								
Share-based compensation for stock option plan		-	-	-	1,414	-	-	1,414
Exercise of stock options								
Monetary consideration		60,000	145	-	-	-	-	145
Attributed value		-	132	-	(132)	-	-	-
Total contributions by owners		60,000	277	-	1,282	-	-	1,559
Balance as at November 30, 2020		77,013,411	\$ 287,312	\$ 4,457	\$ 12,065	\$ (300,129)	\$ (481)	\$ 3,224
Total comprehensive loss								
Net loss		-	-	-	-	(31,725)	-	(31,725)
Other comprehensive income:								
Net change in fair value of FVOCI financial assets		-	-	-	-	-	(197)	(197)
Exchange differences on translation of foreign operations		-	-	-	-	-	634	634
Total comprehensive loss		-	-	-	-	(31,725)	437	(31,288)
Transactions with owners, recorded directly in equity								
Public issue of common shares and warrants	21(a)	16,727,900	46,002	-	-	-	-	46,002
Share issue costs		-	-	-	-	(3,394)	-	(3,394)
Exercise of warrants	21(a)	233,400	742	-	-	-	-	742
Share issue – Oncology	21(b)	481,928	668	-	(668)	-	-	-
Share-based compensation plan:								
Share-based compensation for stock option plan	21(g)	-	-	-	1,879	-	-	1,879
Exercise of stock options:								
Monetary consideration	21(g)	665,000	595	-	-	-	-	595
Attributed value		-	433	-	(433)	-	-	-
Total contributions by owners		18,108,228	48,440	-	778	(3,394)	-	45,824
Balance as at November 30, 2021		95,121,639	\$ 335,752	\$ 4,457	\$ 12,843	\$ (335,248)	\$ (44)	\$ 17,760

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

THE RATECHNOLOGIES INC.

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

Years ended November 30, 2021 and 2020

	Note	2021	2020
Cash flows from (used in)			
Operating			
Net loss		\$ (31,725)	\$ (22,667)
Adjustments for			
Depreciation of property and equipment	11	237	247
Amortization of intangible assets and other asset	13, 14	8,062	7,832
Amortization of right-of-use assets	12	449	441
Share-based compensation for stock option plan and stock appreciation rights		1,932	1,427
(Reversal) write-down of inventories	9	(30)	917
Change in fair value of derivative financial assets	21(d)	(212)	166
Change in fair value of liability related to deferred stock unit plan	21(d)	209	(157)
Interest on convertible unsecured senior notes	5	3,306	3,306
Interest income	5	(195)	(299)
Foreign exchange		890	(549)
Accretion expense	5	2,358	2,056
		(14,719)	(7,280)
Change in operating assets and liabilities			
Trade and other receivables		1,852	(2,253)
Tax credits and grants receivable		323	(749)
Inventories		(4,187)	(4,872)
Prepaid expenses and deposits		(5,569)	(1,297)
Accounts payable and accrued liabilities		5,549	3,438
Provisions		2,226	(537)
Income taxes payable		44	16
Deferred revenue		4	(20)
		242	(6,274)
Total cash used in operating activities		(14,477)	(13,554)
Financing activities			
Repayment of long-term obligations		(5,000)	(3,500)
Proceeds from exercise of stock options		595	145
Proceeds from exercise of warrants		742	-
Proceeds from issue of common shares and warrants		46,002	-
Share issue costs		(3,394)	-
Deferred financing costs		(447)	-
Interest paid on convertible unsecured senior notes		(3,306)	(3,306)
Payment of lease liability		(635)	(568)
Total cash from (used in) financing activities		34,557	(7,229)
Investing activities			
Acquisition of intangible assets		(39)	-
Acquisition of property and equipment	11	(127)	(32)
Proceeds from sale of bonds and money market funds		640	4,506
Acquisition of bonds and money market funds		(12,756)	(59)
Interest received		(172)	401
Acquisition of derivative financial assets		-	(40)
Total cash from (used in) investing activities		(12,454)	4,776
Net change in cash		7,626	(16,007)
Cash, beginning of year		12,737	28,661
Effect of foreign exchange on cash		36	83
Cash, end of year		\$ 20,399	\$ 12,737

See Note 23 for supplemental cash flow disclosures.

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

Theratechnologies Inc.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

Theratechnologies Inc. is a biopharmaceutical company focused on the development and commercialization of innovative therapies addressing unmet medical needs.

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’s head office is located at 2015 Peel Street, Suite 1100, Montréal, Québec, Canada, H3A 1T8.

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 23, 2022.

Basis of measurement

The Company’s consolidated financial statements have been prepared on a going concern and historical cost basis, except for:

- bonds and money market funds, which are measured at fair value,
- derivative financial assets, which are measured at fair value,
- liabilities related to cash-settled share-based arrangements and derivative financial liabilities, which are measured at fair value,
- lease liabilities which are measured at present value of lease payments not paid at commencement date,
- equity-classified share-based payment arrangements are measured at fair value at the grant date pursuant to IFRS 2, *Share-based Payment*.

The methods used to measure fair value are discussed further in Note 26.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

1. Basis of preparation (continued)

Functional and presentation currency

The Company's functional currency is the United States dollar ("US\$").

All financial information presented in US\$ has been rounded to the nearest thousand.

Use of estimates and judgments

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting year.

Judgments in applying accounting policies

Information about critical judgments in applying accounting policies and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements is noted below.

Milestone payments related to Trogarzo®

The commercialization rights related to Trogarzo® are subject to additional cash-based milestone payments based on the attainment of commercial milestones, including development, launch and sales milestones. Milestone payments will be accrued and recorded in the cost of intangible assets when it is probable that they will be achieved. The determination of probability of paying the milestones is subject to judgment. In order to demonstrate that the commercial milestone payment is probable, the following are taken into consideration: product approval; product launch; and approved development plan. In addition, there should be a sufficient history of sales to have reasonable expectation that the commercial milestone payments related to the sales milestone will be reached.

Contingent consideration related to oncology platform

The purchase consideration for the oncology platform (Note 13) includes additional milestone payments based on the attainment of commercial milestones that will be settled through the issuance of the Company's shares, which represent a transaction in the scope of IFRS 2. Accordingly, the fair value of the oncology platform at the date of acquisition incorporates management's judgement as to the probability of attaining the share-based milestones as well as the expected timing of the attainment of the milestones.

Convertible senior unsecured notes

The determination of the fair value of the liability component of a convertible instrument was at time of issuance based on the estimated interest rate that the Company could obtain for a similar debt instrument without a conversion option.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

1. Basis of preparation (continued)

Use of estimates and judgments (continued)

Key sources of estimation uncertainty

Key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are as follows:

Sales allowances

Management uses judgment in estimating provisions for sale allowances such as cash discounts, returns, rebates and chargebacks, including potential clawbacks in certain jurisdictions when pricing terms are based on temporary use authorisations and thus subject to future negotiation. The product revenue recognized quarter over quarter is net of these estimated allowances. Such estimates require the need to make estimates about matters that are inherently uncertain. The Company's estimates are based on our historical claims as supplemented by management's judgment (see Notes 2 (Revenue recognition) and 3 for additional information).

Other

Other areas of judgment and uncertainty are related to the estimation of accruals for clinical trial expenses, the recoverability of inventories from the effects of technological changes or new product introductions, the measurement and recoverability of intangible assets, the measurement of derivative financial assets, and the measurement of share-based arrangements.

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 year in which the estimates are revised and in any future years affected.

COVID-19 pandemic

The COVID-19 pandemic continues to cause significant financial market and social dislocation. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. While the Company has experienced some of the impact of the outbreak of the Coronavirus (COVID-19) on its operations, it continued to operate during the current pandemic. During the year ended November 30, 2021, the Company recognized payroll subsidiaries totaling \$325 (2020-\$453) principally under the Canadian Emergency Wage Subsidy program. These subsidies were recorded as a reduction in the associated personnel costs which the Company incurred, and were recognized in research and development, selling and general and administrative expenses. Given the prolonged pandemic, it is not clear what the potential impact may be on the Company's business, financial position and financial performance.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies

The accounting policies have been applied consistently by the Company, except as otherwise noted for the initial application of new or amended accounting standards.

Basis of consolidation

The financial statements of the subsidiaries of the Company 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.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency at exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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 year, adjusted for effective interest and payments during the reporting year, and the amortized cost in foreign currency translated at the exchange rate in effect at the end of the reporting year.

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. Foreign currency differences arising on translation are recognized in net profit, except for differences arising on the translation of FVOCI financial instruments, which are recognized in other comprehensive income (loss).

Foreign operations

The assets and liabilities of foreign operations whose functional currency is not the US\$ are translated into US\$ at the reporting date. The income and expenses of foreign-currency denominated operations are translated at average rates for each reporting period. Foreign exchange differences arising on the translation of foreign operations are recognized directly in other comprehensive income (loss). When a foreign subsidiary is disposed of, the cumulative amount recognized in the currency translative reserve forms part of the gain or loss on disposal.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Revenue recognition

Revenue from contracts with customers – Net sales

The Company derives revenue from the sales of finished goods, which include Trogarzo® and *EGRIFTA SV*®. The Company recognizes revenue at a point in time when it transfers title of the finished goods to a customer, which generally occurs upon delivery of the finished goods to the customer's premises. Payment received from customers prior to the transfer of control of the goods is recorded as deferred revenue.

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, including potential clawbacks in certain jurisdictions when pricing terms are based on temporary use authorizations and thus subject to future negotiation 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, 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 variable consideration, including expected returns, on a quarterly basis, adjusting for the amounts of the asset and liability accordingly.

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.

Other production-related costs

Other production-related costs include unallocated indirect costs related to production as well as write-downs of inventories.

Amortization of the other asset

The amortization of the other asset relates to the repurchase of the future royalty rights under the 2013 Termination Agreement (Note 14).

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

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.

Finance income and finance costs

Finance income comprises interest income on financial assets and gains on the disposal of financial assets. Interest income is recognized as it accrues in net loss using the effective interest method.

Finance costs comprise bank charges, interest and accretion expense on convertible unsecured senior notes and long-term obligations, impairment losses on financial assets recognized in net loss, changes in fair value of liabilities and derivatives, unrealized foreign currency gain or loss on long-term obligations and other foreign currency gains and losses which are reported on a net basis.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

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 conversion work performed by third party suppliers.

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.

Construction in progress assets are capitalized during construction and depreciation commences when the asset is available for use.

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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Property and equipment (continued)

Depreciation

The methods of depreciation and depreciation rates and periods are as follows:

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

The method of depreciation is selected based on the most closely expected pattern of consumption of the future economic benefits embodied in the asset.

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

Intangible assets

Research and development

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

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

During the years ended November 30, 2021 and 2020, no development expenditures were capitalized.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Intangible assets (continued)

Commercialization rights and oncology platform

Commercialization rights and the oncology platform acquired by the Company have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent changes in the cash-based contingent consideration on the acquisition of intangible assets arising from the attainment of commercial milestones are recorded in the cost of the asset. Commercialization rights – *EGRIFTA SV*[®] are amortized at fixed rates based on their estimated useful life of 111 months on a straight-line basis. Commercialization rights – Trogarzo[®] North American Territory are amortized at fixed rates based on their estimated useful life of 142 months on a straight-line basis. Commercialization rights – Trogarzo[®] European Territory are amortized at fixed rates based on their estimated useful life of 148 months on a straight-line basis. Commercialization rights for the oncology platform will be amortized over the estimated useful life on a straight-line basis when the asset is available for use.

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

Other asset

Other asset, which comprises the amount disbursed in connection with the repurchase of the future royalty rights under the 2013 Termination Agreement (Note 13), is amortized over its estimated useful life of 48 months.

Impairment of 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 years are determined by the Company at each reporting date for any indications that the loss has decreased or no longer exists. 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 United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Financial instruments

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.

(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 (loss). When an investment is derecognized, gains or losses accumulated in other comprehensive income (loss) are reclassified to profit or loss.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Financial instruments (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 (loss).

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 (loss) and are never reclassified in profit or loss.

The Company currently classifies its bonds as financial assets measured at FVOCI.

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

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVPL. 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 and non-hedge derivative financial assets as financial assets measured at FVPL.

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.

(iv) Financial liabilities

Financial liabilities are classified into the following categories:

- 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 FVPL.

- Financial liabilities measured at amortized cost

This category includes all financial liabilities, other than those measured at FVPL. 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 obligations as financial liabilities measured at amortized cost.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Financial instruments (continued)

(iv) Financial liabilities (continued)

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

(v) Compound financial instruments

Compound financial instruments are instruments that contain both a liability component and an equity component, and the liability component can be converted into share capital at the option of the holder and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversation option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

(vi) 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 year in which they occur.

(vii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the consolidated 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.

At each reporting date, the Company recognizes loss allowances for expected credit losses (“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 Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Financial instruments (continued)

(viii) Impairment of financial assets

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.

Leases

At inception, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease, i.e. the date the underlying asset, is available for use.

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated amortization and accumulated impairment losses, and adjusted for remeasurement of lease liabilities. Cost of right-of-use assets comprises:

- the initial measurement amount of the lease liabilities recognized;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease contract.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Leases (continued)

Right-of-use assets (continued)

Right-of-use assets are amortized on a straight-line basis over the lesser of i) the estimated useful life of the underlying assets; and ii) the lease term. Right-of-use assets are assessed for impairment whenever there is an indication that the right-of-use assets may be impaired.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date over the lease term. The present value of the lease payments is determined using the lessee's incremental borrowing rate at the commencement date if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is a function of the lessee's incremental borrowing rate, the nature of the underlying asset, the location of the asset, the length of the lease and the currency of the lease contract. Generally, the Company uses the lessee's incremental borrowing rate for the present value. At the commencement date, lease payments generally include fixed payments, less any lease incentives receivable, variable lease payments that depend on an index (e.g. based on inflation index) or a specified rate, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising the option to terminate the lease. Lease payments also include amounts expected to be paid under residual value guarantees and the exercise price of a purchase option if the Company is reasonably certain to exercise that option.

Variable lease payments that do not depend on an index or a specified rate are not included in the measurement of lease liabilities but instead are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

After the commencement date, the carrying amount of lease liabilities is increased to reflect the accretion of interest and reduced to reflect lease payments made. In addition, the carrying amount of lease liabilities is remeasured when there is a change in future lease payments arising from a change in an index or specified rate, if there is a modification to the lease terms and conditions, a change in the estimate of the amount expected to be payable under residual value guarantee, or if the Company changes its assessment of whether it will exercise a termination, extension or purchase option. The remeasurement amount of the lease liabilities is recognized as an adjustment to the right-of-use asset, or in the consolidated statement of comprehensive loss when the carrying amount of the right-of-use asset is reduced to zero.

Classification and presentation of lease-related expenses

Amortization charge for right-of-use assets, expenses related to variable lease payments not included in the measurement of lease liabilities and loss (gain) related to lease modifications are allocated in the Company's consolidated statement of comprehensive loss based on their function within the Company, while interest expense on lease liabilities is presented within finance costs.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Deferred Financing Costs

Deferred Financing Costs consists of fees charged by underwriters, attorneys, accountants, and other fees directly attributable to future issuances of shares. Provided these costs are determined to be recoverable, these costs are deferred and charged subsequently against the gross proceeds of the related equity transaction on a proportionate basis when it occurs. If at such time, the Company deems that these costs are no longer recoverable, they will be expensed as a component of finance expenses.

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.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Income taxes

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

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 years. 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.

Deferred income tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss at the time of the transaction, and, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising from the initial recognition of goodwill.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Share-based compensation

Share 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 over the period in which employees unconditionally become entitled to the options. The amount recognized as an expense is adjusted to reflect the number of options 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 options 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 on the date of grant and are settled in cash. When DSUs are granted to officers as part of their annual bonuses, a DSU liability is recorded on the date of grant at the market value of the common shares 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 on the date of grant. The liability is adjusted to reflect any change in the market value of common shares, and such change is recorded in finance costs.

Cash-settled stock appreciation rights

The stock appreciation rights (“SARs”) entitle the grantee to a cash payment based on the increase in the share price of the Company’s common shares from the grant date to the settlement date.

A liability is recognized for the services acquired and is recorded at the fair value of the SARs in other non-current liabilities, with a corresponding expense recognized in selling expenses over the period that the employees become unconditionally entitled to the payment. The fair value of the employee benefits expense of the SARs is measured using the Black-Scholes model.

Estimating fair value requires determining the most appropriate inputs to the valuation model including the expected life of the SARs, volatility, risk-free interest rate and dividend yield and making assumptions about them. At the end of each reporting period until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognized in the consolidated statement of net earnings (loss) and comprehensive earnings (loss) of the current year.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Government assistance

Government grants are recognized only when the Company has reasonable assurance that it meets the conditions and will receive the grants. Government grants related to assets are recognized in the consolidated statement of financial position as a deduction from the carrying amount of the related asset. They are then recognized in profit or loss over the estimated useful life of the amortization asset that the grants were used to acquire, as a deduction from the amortization expense.

Other government grants are recognized in profit or loss as a deduction from the related expenses, such as salaries for the Canadian Emergency Wage Subsidy program.

Research and development tax credits

The Company elected to account for non-refundable research and development tax credits under IAS 20, *Accounting for Government Grants and Disclosure of Governmental Assistance*. Non-refundable research and development tax credits are included in earnings against gross research and development expenses 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

Common shares

Common shares are classified as equity.

Transaction costs

Costs directly attributable to the issue of common shares are recognized in equity, net of any tax effects.

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 year. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders by taking the weighted average number of common shares outstanding and taking into consideration all dilutive potential common shares, which consist of the outstanding stock options and convertible unsecured senior notes.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after December 1, 2021 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

2. Significant accounting policies (continued)

Standards issued but not yet effective (continued)

Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. The Company is currently evaluating the impact of the amendments on its financial statements.

3. Revenue

United States

On May 12, 2014, the Company entered into a master services agreement with Rx 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 logistics service provider for all of the Company’s 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 third-party distributor of *EGRIFTA SV*[®] in the United States. In such a role, RxCrossroads purchases *EGRIFTA SV*[®] from the Company and takes title thereto when the goods arrive in their warehouse. RxCrossroads’ purchases of *EGRIFTA SV*[®] are triggered by its expectations of market demand over a certain period of time. With respect to *EGRIFTA SV*[®], RxCrossroads fulfills orders received from authorized wholesalers and delivers *EGRIFTA SV*[®] directly to that authorized wholesaler’s client, namely, a specialty pharmacy forming part of the Company’s network of specialty pharmacies. See Note 28.

On November 1, 2017, the Company entered into amended and restated RxCrossroads Agreements to add Trogarzo[®] as a new product sold in the United States. These amended and restated RxCrossroads Agreements replaced the RxCrossroads Agreements entered into in May 2014. On November 1, 2019, the RxCrossroads Agreements were amended anew to include *EGRIFTA SV*[®] as an additional product distributed by RxCrossroads in the United States.

Canada

The Company commercializes *EGRIFTA*[®] directly in Canada using a distributor.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

3. Revenue (continued)

Europe

On July 9, 2020, the Company entered into pre-wholesaling services agreement with Loxxess Pharma GmbH or (“Loxxess”) pursuant to which Loxxess agreed to act as our third-party service logistics provider (the “Loxxess Agreement”) in certain key European countries, including Germany, France, Italy, Austria, The Netherlands, Portugal, Switzerland, United Kingdom, Norway, Sweden, Finland and Denmark. Loxxess is also capable of serving other European countries, including Israel and Turkey. Pursuant to the Loxxess Agreement, Loxxess receives customers’ orders, stores, packages and ships Trogarzo® to European hospitals and pharmacies. Loxxess is also responsible, on our behalf, to collect payments of the goods sold to those hospitals and pharmacies. The hospitals and pharmacies dispense Trogarzo® to patients.

Net sales by product were as follows:

	2021		2020
<i>EGRIFTA</i> ® and <i>EGRIFTA SV</i> ®	\$ 43,009	\$	35,399
Trogarzo®	26,814		30,654
	\$ 69,823	\$	66,053

Net sales by geography were as follows:

	2021		2020
Canada	\$ 269	\$	354
United States	68,099		65,455
Europe	1,455		244
	\$ 69,823	\$	66,053

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

4. Personnel expenses

	Note	2021	2020
Salaries and short-term employee benefits		\$ 11,480	\$ 7,564
Post-employment benefits		644	458
Share-based compensation	21(e),(g)	1,651	1,297
Termination benefits		209	876
		\$ 13,984	\$ 10,195

5. Finance income and finance costs

	Note	2021	2020
Net foreign currency gain		\$ -	\$ 418
Interest income		195	299
Finance income		195	717
Accretion expense	17, 18, 19	(2,358)	(2,056)
Interest on convertible unsecured senior notes		(3,306)	(3,306)
Bank charges		(31)	(40)
Net foreign currency loss		(926)	-
Loss on financial instruments carried at fair value		-	(9)
Finance costs		(6,621)	(5,411)
Net finance cost recognized in net profit or loss		\$ (6,426)	\$ (4,694)

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

6. Bonds and money market funds

	2021	2020
Bonds	\$ 12,553	\$ 634
Money market funds	7,402	7,397
	\$ 19,955	\$ 8,031

As at November 30, 2021, bonds were interest-bearing financial assets with stated interest rates ranging from 0.5% to 3.9% (2020 – 2.2% to 4.1%) and had an average maturity of 2.26 years (2020 – 0.06 years).

7. Trade and other receivables

	2021	2020
Trade receivables	\$ 9,261	\$ 10,947
Sales tax receivable	243	407
Other receivables	983	1,076
	\$ 10,487	\$ 12,430

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

8. Tax credits and grants receivable

Balance as at November 30, 2019	\$	-
Tax credits and grants recognized in net loss		749
Effect of change in exchange rates		6
Balance as at November 30, 2020	\$	755
Tax credits and grants recognized in net loss		602
Tax credits and grants received		(922)
Effect of change in exchange rate		6
Balance as at November 30, 2021	\$	441

Tax credits receivable comprise grants receivable, and research and development investment tax credits receivable which relate to eligible research and development expenditures under the applicable tax laws. The amounts recorded as receivables 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.

The Company has unused and unrecorded non-refundable federal tax credits which may be used to reduce future federal income tax payable and expire as follows:

2024	\$	458
2025		1,365
2026		1,676
2027		2,309
2028		2,561
2029		1,726
2030		855
2031		598
2032		313
2033		207
2039		193
2040		329
2041		330
	\$	12,920

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

9. Inventories

	2021	2020
Raw materials	\$ 2,142	\$ 2,290
Work in progress	735	488
Finished goods	26,264	22,367
	\$ 29,141	\$ 25,145

Inventories were written down to net realizable value by an amount of \$21 in 2021 (2020 – \$917), and a reversal of inventory write down of \$51 in 2021 (2020-nil) was recorded. An amount of nil (2020 – \$910) was recorded in cost of sales as other production-related costs and \$(30) (2020 – \$7) was recorded in cost of goods sold.

Included in the 2020 write-down is a provision of \$660 on excess stock of *EGRIFTA*[®] as a result of the Company's decision to switch patients to and only actively commercialize the new *EGRIFTA SV*[®] formulation in the United States.

10. Prepaid expenses and deposits

	2021	2020
Prepaid expenses	\$ 7,721	\$ 4,997
Deposits	3,024	192
	\$ 10,745	\$ 5,189

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

11. Property and equipment

	Computer equipment	Laboratory equipment	Office furniture and equipment	Leasehold improvements	Total
Cost					
Balance as at November 30, 2019	\$ 231	\$ 107	\$ 334	\$ 642	\$ 1,314
Additions	41	-	-	-	41
Balance as at November 30, 2020	\$ 272	\$ 107	\$ 334	\$ 642	\$ 1,355
Additions	106	-	1	8	115
Disposals	(5)	-	(3)	-	(8)
Balance as at November 30, 2021	\$ 373	\$ 107	\$ 332	\$ 650	\$ 1,462
Accumulated depreciation					
Balance as at November 30, 2019	\$ 87	\$ 32	\$ 58	\$ 66	\$ 243
Depreciation	75	18	56	98	247
Balance as at November 30, 2020	\$ 162	\$ 50	\$ 114	\$ 164	\$ 490
Depreciation	72	19	46	100	237
Disposals	(5)	-	(3)	-	(8)
Balance as at November 30, 2021	\$ 229	\$ 69	\$ 157	\$ 264	\$ 719
Net carrying amounts					
November 30, 2021	\$ 144	\$ 38	\$ 175	\$ 386	\$ 743
November 30, 2020	\$ 110	\$ 57	\$ 220	\$ 478	\$ 865

THERATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

12. Right-of-use assets

Balance as at November 30, 2019	\$	-
Impact of initial adoption of IFRS 16		2,954
Amortization		(441)
Effect of change in exchange rates		105
Balance as at November 30, 2020	\$	2,618
Amortization		(449)
Effect of change in exchange rates		(58)
Balance as at November 30, 2021	\$	2,111

13. Intangible assets

	Commercialization rights – Trogarzo® North American Territory	Commercialization rights – Trogarzo® European Territory	Commercialization rights – EGRIFTA SV®	Oncology platform	Total
Cost					
Balance as at November 30, 2019 and 2020	\$ 11,972	\$ 7,612	\$ 14,041	\$ 3,449	\$ 37,074
Additions	-	-	-	39	39
Balance as at November 30, 2021	\$ 11,972	\$ 7,612	\$ 14,041	\$ 3,488	\$ 37,113
Accumulated amortization					
Balance as at November 30, 2019	\$ 1,158	-	\$ 8,436	-	\$ 9,594
Amortization	1,055	384	1,512	-	2,951
Balance as at November 30, 2020	\$ 2,213	\$ 384	\$ 9,948	-	\$ 12,545
Amortization	1,054	615	1,511	-	3,180
Balance as at November 30, 2021	\$ 3,267	\$ 999	\$ 11,459	-	\$ 15,725
Net carrying amounts					
November 30, 2021	\$ 8,705	\$ 6,613	\$ 2,582	\$ 3,488	\$ 21,388
November 30, 2020	\$ 9,759	\$ 7,228	\$ 4,093	\$ 3,449	\$ 24,529

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

13. Intangible assets (continued)

The amortization expense of \$3,180 (2020 – \$2,951) is included in selling expenses.

Commercialization rights – Trogarzo[®]

On March 18, 2016, the Company entered into a distribution and marketing agreement with TaiMed Biologics, Inc. (“TaiMed”) granting the Company the exclusive right to market Trogarzo[®] in Canada and in the United States. On March 6, 2017, the Company entered into an amended and restated distribution and marketing agreement with TaiMed (“TaiMed Agreement”) granting the Company the exclusive right to market and distribute Trogarzo[®] in Canada and in the United States (collectively, the “North American Territory”) as well as in European Union countries and other countries such as Israel, Norway, Russia and Switzerland (collectively, the “European Territory”). The TaiMed Agreement has a 12-year term that will expire on a country-by-country basis calculated from the date of approval of Trogarzo[®] in each of the countries covered under the TaiMed Agreement. TaiMed is responsible for the manufacture and supply of Trogarzo[®] under the TaiMed Agreement.

Commercialization rights – Trogarzo[®] in the North American Territory

Under the terms of the TaiMed Agreement, TaiMed is responsible for developing Trogarzo[®] and was responsible for seeking its approval from the US Food and Drug Administration (“FDA”), whereas the Company is responsible, but has no obligation, to seek the approval of Trogarzo[®] from Health Canada. The purchase price of Trogarzo[®] payable to TaiMed has been determined at 52% of its net selling price.

Initial payments

Under the TaiMed Agreement, the Company agreed to make an initial payment of US\$5,000 and will make several further milestone payments in exchange for the right to commercialize Trogarzo[®] and the right to use TaiMed’s trademark in the North American Territory.

The initial payment of \$5,000 was made in accordance with the following:

- (i) \$1,000 was paid in cash at the signature of the TaiMed Agreement entered into in March 2016; and
- (ii) \$4,000 through the issuance of the Company’s common shares, payable after the first commercial sale of Trogarzo[®] in the United States. The \$4,000 payment was made on May 15, 2018 and resulted in the issuance of 1,463,505 common shares to TaiMed.

The Company recorded as additions to intangible assets during 2016 related to the TaiMed Agreement an amount of \$5,207, which comprises the cash payment of \$1,000 at the signature of the agreement, the share-based payment of \$4,000 and \$207 of acquisition costs.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

13. Intangible assets (continued)

Commercial milestone payments

As further consideration under the TaiMed Agreement, the Company shall make the following one-time payments upon the first occurrence of the following commercial events:

Commercial milestone	Note	Commercial milestone payment
(i) Achieving aggregate net sales of \$20,000 over four consecutive quarters of the Company's financial year	17	\$7,000 (paid in 2019 and 2020)
(ii) Upon first achieving annual net sales of \$200,000		\$10,000
(iii) Upon first achieving annual net sales of \$500,000		\$40,000
(iv) Upon first achieving annual net sales of \$1,000,000		\$100,000

The Company will also pay TaiMed development milestones for Trogarzo[®]. A \$3,000 milestone (payable in two equal annual installments of \$1,500) is due upon the date of the first commercial sale of a once every two weeks intramuscular, subcutaneous or intravenous-push (either fast or slow) injection formulation. TaiMed may also plan a larger Phase III trial using Trogarzo[®] with a once every four weeks intramuscular, subcutaneous or intravenous-push (either fast or slow) injection formulation to address a much broader patient population. This development milestone will consist of an upfront milestone payment of up to \$50,000 depending on the size of the newly targeted population, which will be paid quarterly, based on a percentage of net sales generated by Trogarzo[®].

Commercialization rights – Trogarzo[®] in the European Territory

On September 26, 2019, Trogarzo[®] was approved for sale in Europe by the European Medicines Agency (the "EMA").

The purchase price of Trogarzo[®] for sales occurring in a country forming part of the European Territory is set at (i) 52% of the net selling price of Trogarzo[®] in such country on annual net sales in such country up to, or equal to, \$50,000 and (ii) an amount equal to 57% of the net selling price of Trogarzo[®] in such country on the portion of annual net sales of Trogarzo[®] in the European Territory that exceeds annual net sales of Trogarzo[®] in the European Territory of \$50,000.

Initial and milestone payments

The TaiMed Agreement also provides for the following development, launch and sales milestones paid or to be paid by the Company to TaiMed:

- An upfront payment of \$3,000, which was paid through the issuance of 906,077 common shares of the Company on March 17, 2017;

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

13. Intangible assets (continued)

Initial and milestone payments (continued)

- An approval milestone payment representing 50% of the costs of the clinical trials and all associated development activities regulated by the EMA and incurred by TaiMed, if any, to obtain marketing approval of Trogarzo[®] in the European Territory countries, payable quarterly and equal to 5% of net sales recorded in each quarter;
- A launch milestone payment of \$10,000 payable to TaiMed as follows:
 - \$5,000 one year after the first commercial sale of Trogarzo[®]; and
 - \$5,000 one year after reaching net sales in the European Territory aggregating \$50,000 over four consecutive quarters;
- A milestone of \$10,000 upon net sales in the European Territory aggregating \$150,000 over four consecutive quarters;
- A milestone of \$20,000 upon net sales in the European Territory aggregating \$500,000 over four consecutive quarters; and
- A milestone of \$50,000 upon net sales in the European Territory aggregating \$1,000,000 over four consecutive quarters.

As a result of the TaiMed Agreement, the Company recorded as additions to intangible assets during 2017 an amount of \$3,055, which comprises the payment of \$3,000 paid through the issuance of 906,077 common shares of the Company and \$55 of acquisition costs.

The commercial milestone payments payable in cash are accrued and recorded in the cost of the intangible asset when it is probable that they will be paid. The commercial milestone payments represent licence fee consideration and, therefore, will be added to the cost of the intangible asset. In order to demonstrate that the commercial milestone payment is probable, the product will need to have been launched and there should be a sufficient history of sales to have a reasonable expectation that the commercial milestone payments will be reached.

In 2019, the Company accrued and recorded the first \$5,000 payable one year after the first commercial sale of Trogarzo[®] at a present value of \$4,557 as the Company determined that it was probable that the milestones would be achieved (Note 17).

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

13. Intangible assets (continued)

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 licence 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 “Licence Agreement”).

Under the terms of the acquisition agreement, the purchase price is subject to two share-based milestone payments. The first milestone consisted in initiating a Phase 1 clinical trial evaluating TH1902 for the treatment of Sortilin positive solid tumors. This milestone was achieved in March 2021 and was satisfied through the issuance of 481,928 common shares (note 21 b)).

The second milestone payment of CA\$2.3 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.

This acquisition was accounted for as an asset acquisition. The Company recorded additions to intangible assets during 2019 of \$3,073, which comprised the payment at closing of \$1,965 in cash, \$5 through the issuance of 900 common shares of the Company, the estimated fair value of the share-based contingent consideration of \$1,028, and \$75 of acquisition costs. As the share-based payments are equity-settled, the Company recognized a corresponding increase in equity, and no remeasurement of the fair value will occur regardless of whether the milestones are achieved. Since the common shares for the second milestone payment have not been issued yet, the increase in equity is recorded in contributed surplus. Upon the issuance of the common shares, this amount will be reclassified to share capital. The intangible asset is currently not being amortized. Amortization will begin when the asset is available for use.

In August 2019, the acquisition agreement was amended to provide for an adjustment to the purchase price of CA\$1.08 million in the event the Company could indirectly benefit from a CA\$1.2 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 CA\$500 thousand was paid in cash in October 2019, whereas the second installment of CA\$580 thousand will be paid at the same time as the CA\$2.3 million milestone referred to above is achieved and will be satisfied through the issuance of common shares of the Company. The cash payment of \$376 (CA\$500 thousand) was recognized as an addition to intangible assets during 2019.

Annual maintenance fees amount to CA\$25 thousand for the first five years and CA\$100 thousand thereafter, until royalties become payable beginning with the first commercial sale of a product developed using the licensed technology.

TERATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

13. Intangible assets (continued)

Oncology platform (continued)

The royalties payable under the Licence Agreement vary between 1% and 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% and 15% of revenues received from such sublicense agreement.

The Company must 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: \$39 (CA\$50) thousand upon the successful enrolment of the first patient in the first Phase 1 human clinical trial paid in May 2021;
- (ii) Second milestone payment: CA\$100 thousand upon the successful enrolment of the first patient in the first Phase 2 human clinical trial; and
- (iii) Third milestone payment: CA\$200 thousand upon the successful enrolment of the first patient in the first Phase 3 human clinical trial.

Also, the Company must pay CA\$200 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 Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

14. Other asset

Cost

Balance as at November 30, 2019, 2020 and 2021	\$	19,530
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Accumulated amortization

Balance as at November 30, 2019	\$	7,326
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Amortization		4,881
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Balance as at November 30, 2020	\$	12,207
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Amortization		4,882
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Balance as at November 30, 2021	\$	17,089
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Net carrying amounts

November 30, 2021	\$	2,441
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November 30, 2020	\$	7,323
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On May 29, 2018, the Company entered into an agreement (the “Renegotiated Agreement”) with EMD Serono, Inc. to settle all outstanding cash payment obligations stemming from a termination and transfer agreement dated December 13, 2013, as amended (the “2013 Termination Agreement”). The remaining contractual obligations under the 2013 Termination Agreement totalled approximately \$28,200, which was comprised of a \$4,000 payment due in May 2019 and \$24,200 in estimated royalties on future sales of *EGRIFTA*[®] payable over the subsequent four to five years. The Renegotiated Agreement allowed the Company to make one lump sum payment of \$23,850 in settlement of the long-term obligation of \$4,000 and to eliminate all of the royalty payments due on sales of *EGRIFTA*[®] in the United States. The payment made in connection with the settlement of the future royalty obligation has been accounted for as an other asset on the consolidated statement of financial position.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

15. Accounts payable and accrued liabilities

	Note	2021	2020
Trade payables		\$ 15,526	\$ 17,510
Accrued liabilities and other payables		19,932	13,911
Salaries and benefits due to key management personnel	29	880	776
Employee salaries and benefits payable		1,942	724
Liability related to deferred stock unit plan	21(d)	710	508
Accrued interest payable on convertible unsecured senior notes	18	1,386	1,386
		\$ 40,376	\$ 34,815

16. Provisions

	Chargebacks and rebates	Returns	Other	Total
Balance as at November 30, 2019	\$ 2,182	\$ 247	\$ 55	\$ 2,484
Provisions made	10,314	948	2,973	14,235
Provisions used	(10,818)	(935)	(3,019)	(14,772)
Balance as at November 30, 2020	\$ 1,678	\$ 260	\$ 9	\$ 1,947
Provisions made	10,655	1,074	-	11,729
Provisions used	(8,570)	(924)	(9)	(9,503)
Effect of change in exchange rate	(50)	-	-	(50)
Balance as at November 30, 2021	\$ 3,713	\$ 410	\$ -	\$ 4,123

THERATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

17. Other obligations

The movement in the other obligations is as follows.

		Commercialization rights – Trogarzo® North American Territory		Commercialization rights – Trogarzo® European Territory		Total
Balance as at November 30, 2019	\$	3,417	\$	4,570	\$	7,987
Accretion expense		83		96		179
Payment		(3,500)		-		(3,500)
Current portion as at November 30, 2020		-	\$	4,666	\$	4,666
Accretion expense		-		334		334
Payment		-		(5,000)		(5,000)
Current portion as at November 30, 2021	\$	-	\$	-	\$	-

Commercialization rights – Trogarzo® North American Territory

Under the terms of the TaiMed Agreement, a commercial milestone of \$7,000 was 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 it would be 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 was made in June 2020.

Commercialization rights – Trogarzo® European Territory

Under the terms of the TaiMed Agreement, a launch milestone of \$5,000 is payable one year after the first commercial sale of Trogarzo®. The Company accrued the discounted value of the obligation in 2019. The payment was made in October 2021.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

18. Convertible unsecured senior notes

On June 19, 2018, the Company closed a notes offering of convertible unsecured senior notes having an aggregate principal amount of \$57,500. The notes bear interest at an annual rate of 5.75% (effective interest rate of 9.95%) and are convertible into common shares at the option of the holder at any time at a conversion price of \$14.85 per common share, representing 3,872,053 common shares. The maturity date of the notes is June 30, 2023. The Company may redeem the notes prior to maturity at any time on or after June 30, 2021 if the current market price of the common shares is at least 130% of the conversion price. The notes are repayable at par value plus accrued and unpaid interest.

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

Convertible unsecured senior notes as at November 30, 2019	\$	50,741
Accretion expense		1,662
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Convertible unsecured senior notes as at November 30, 2020	\$	52,403
Accretion expense		1,824
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Convertible unsecured senior notes as at November 30, 2021	\$	54,227

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

19. Leases liabilities

	Carrying value	
Balance as at December 1, 2019	\$	3,192
Accretion expense		215
Lease payments		(568)
Effect of change in exchange rates		141
Balance as at November 30, 2020	\$	2,980
Accretion expense		200
Lease payments		(635)
Effect of change in exchange rates		(27)
Balance as at November 30, 2021	\$	2,518
Current portion		(463)
Non-current portion	\$	2,055

20. Other liabilities

	Note	2021		2020	
Stock appreciation rights	21(e)	\$	94	\$	41
		\$	94	\$	41

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

21. Share capital and warrants

Authorized in unlimited number and without par value

Common shares; and

Preferred shares, issuable in one or more series.

All issued shares were fully paid on November 30, 2021 and 2020.

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

No preferred shares are outstanding.

(a) Public offering

On January 19, 2021, the Company completed a public offering for the sale and issuance of 16,727,900 units at a price of \$2.75 per unit for a gross cash consideration of \$46,002, including the full exercise of the over-allotment option.

Each unit was comprised of one common share of the Company and one-half of one common share purchase warrant of the Company (each whole warrant, a "Warrant") and is classified in Share Capital and Warrants within equity. Share issuance costs of \$3,394 were recorded against the deficit. As at November 30, 2021, 233,400 Warrants were exercised for proceeds of \$742, and there were 8,130,550 Warrants outstanding. Each Warrant entitles the holder thereof to purchase one common share at an exercise price of \$3.18 at any time until January 19, 2024.

(b) Milestone oncology

In March 2021, the Company issued 481,928 common shares under the terms of the acquisition agreement entered into with all of the shareholders of Katana for Katana's in-licensed oncology platform. The purchase price for the oncology platform provided for share-based consideration to be issued upon attainment of two milestones. The first milestone was achieved in March 2021. The estimated fair value of the share-based consideration of \$668 initially recorded in contributed surplus on the date of the acquisition was reclassified to share capital (Note 13).

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

21. Share capital and warrants (continued)

(c) ATM program

Under the terms of a sales agreement dated July 23, 2021, the Company may issue and sell from time to time its common shares, having an aggregate offering price of up to \$50,000, through or to the Agent, as agent or principal, in the United States. Sales of the common shares will be made in transactions that are deemed to be “at-the-market distributions” (ATM). No common shares will be sold on the TSX or on other trading markets in Canada as “at-the-market distributions”. Subject to the terms and conditions of the sales agreement, the Agent will use its commercially reasonable efforts to sell the common shares from time to time, based upon the Company’s instructions. The Common Shares would be issued at market prices prevailing at the time of the sale and, as a result, prices may vary between purchasers and during the period of distribution. The Agent will be entitled to compensation at a fixed commission rate of three percent (3.0%) of the gross sales price per common share sold. The Company has no obligation to sell any of the common shares. Either the Company or the Agent may terminate the sales agreement in their sole discretion at any time by giving written notice. As at November 30, 2021, no common shares were issued. Total costs of \$621 incurred in connection with the ATM program were recorded as deferred financing costs in the Consolidated Statements of Financial Position.

(d) DSU 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”). 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 or 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 used to determine the number of DSUs a Beneficiary may be granted or the value to be paid to a Beneficiary upon redemption. This value is equal to the average closing price of the common shares on the Toronto Stock Exchange on the date on which the Company is entitled to grant DSUs, or on the date on which a Beneficiary redeems them, and during the four previous trading days.

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 United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

21. Share capital and warrants (continued)

(d) DSU 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 is recognized at the grant date. During the year ended November 30, 2021, \$78 (2020 – \$33) was recorded as an expense and is included in general and administrative expenses. The liability related to DSUs is adjusted periodically to reflect any change in the market value of the common shares. As at November 30, 2021, a loss of \$209 (2020 – gain of \$157) was recognized within finance costs (Note 5). As at November 30, 2021, the Company had a total 215,508 DSUs outstanding (2020 – 220,171 DSUs) and a liability related to the DSUs of \$710 (2020 – liability of \$508).

Cash-settled forward stock contracts

To protect against fluctuations in the value of DSUs, the Company entered into cash-settled forward stock contracts. They were not designated as hedging instruments for accounting purposes. As at November 30, 2021 and 2020, the cash-settled forward stock contracts outstanding correspond to a total of 220,171 common shares at a price of \$5.84 per share (2020 – \$5.75 per share) expiring on December 21, 2022 (2020 – December 21, 2021). As at November 30, 2021, the fair value of cash-settled forward stock contracts was \$740 (2020 – \$520) and is recorded in derivative financial assets. During the year ended November 30, 2021, a gain of \$212 (2020 – loss of \$166) related to the change in fair value of derivative financial assets was recognized within finance costs.

(e) Share 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 of three years.

For the year ended November 30, 2021, \$53 (2020 – \$13) was recorded as share-based compensation expense for the SARs plan. Since these awards will be cash-settled, the fair value of SARs granted is estimated at each reporting period using the Black-Scholes model and the following weighted average assumptions.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

21. Share capital and warrants (continued)

(e) Share Appreciation Rights (SARs) (continued)

Granted in 2019	Measurement date as at November 30, 2021	Measurement date as at November 30, 2020
Risk-free interest rate	1.57%	0.67%
Expected volatility	59%	64.6%
Average option life in years	5.2 years	6.25 years
Share price	\$ 3.29 (CA\$4.21)	\$ 2.31 (CA\$3.00)
Option exercise price	\$ 6.30 (CA\$8.05)	\$ 6.19 (CA\$8.05)

Granted in 2021	Measurement date as at November 30, 2021
Risk-free interest rate	1.57%
Expected volatility	65.5%
Average option life in years	8.2 years
Share price	\$ 3.29 (CA\$4.21)
Option exercise price	\$ 3.38 (CA\$4.32)

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 SAR is estimated taking into consideration the vesting period at the grant date, the life of the SAR 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 year ended November 30, 2021. No SARs were granted in 2020.

	Number of SARs	Weighted average grant date fair value
2021	75,000	\$ 2.13 (CA\$2.73)

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

21. Share capital and warrants (continued)

(f) Shareholder rights plan

On April 10, 2019, the Company's Board of Directors approved the amendment and renewal of the shareholder rights plan and, on the same date, the Company and Computershare Trust Services of Canada entered into an amended and restated shareholder rights plan agreement (the "Plan"). The Plan was approved by the shareholders on May 15, 2019. 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 closure of the Company's annual meeting of shareholders in 2022 unless the Plan is reconfirmed and approved by shareholders at such meeting.

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 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 Plan's rights).

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 105 days. If, at the end of 105 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.

(g) 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 7,700,000 options can be granted under the stock option plan. Generally, the options vest at the grant date or over a period of up to three years. As at November 30, 2021, 4,251,404 options could still be granted by the Company under the plan (2020 – 2,379,863).

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

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

21. Share capital and warrants (continued)

(g) 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	
		CA\$	US\$
Options outstanding as at November 30, 2019	2,415,784	\$ 3.94	\$ 2.96
Granted – CA\$	1,077,721	3.06	2.25
Forfeited and expired – CA\$	(229,812)	4.72	3.47
Exercised (share price: CA\$8.65 (US\$6.57))	(60,000)	3.38	2.40
Options outstanding as at November 30, 2020	3,203,693	\$ 3.59	\$ 2.76
Granted – CA\$	1,057,831	3.94	3.10
Forfeited and expired – CA\$	(406,240)	6.61	5.26
Exercised (share price: CA\$4.18 (US\$3.36))	665,000	1.11	0.89
Options outstanding as at November 30, 2021 – CA\$	3,190,284	\$ 3.83	\$ 3.00
Options exercisable as at November 30, 2021 – CA\$	1,630,476	\$ 3.96	\$ 3.10
Options exercisable as at November 30, 2020 – CA\$	2,063,672	\$ 3.43	\$ 2.64
Options outstanding in US\$			
Options as at November 30, 2020 – US\$	12,500	-	2.35
Granted – US\$	102,608	-	3.18
Forfeited – US\$	(34,375)	-	3.06
Options outstanding as at November 30, 2021 – US\$	80,733	\$ -	\$ 3.09
Options exercisable as at November 30, 2021 – US\$	4,166	\$ -	\$ 2.35
Options exercisable as at November 30, 2020 – US\$	-	\$ -	\$ -

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

21. Share capital and warrants (continued)

(g) Stock option plan (continued)

The following table provides stock option information as at November 30, 2021 (options outstanding in CA\$).

Price range		Number of options outstanding	Weighted average remaining life (years)	Weighted average exercise price	
CA\$	US\$			CA\$	US\$
0.25 – 1.19	0.19 – 0.92	314,660	1.12	0.36	0.28
2.01 – 3.75	1.55 – 2.89	1,310,453	7.32	2.80	2.19
3.76 – 6.00	2.89 – 4.62	1,108,074	8.84	4.15	3.25
6.01 – 9.00	4.62 – 6.93	318,733	6.95	7.92	6.20
9.01 – 10.00	6.93 – 1.70	138,364	6.35	9.56	7.48
		3,190,284	7.16	3.83	3.00

The following table provides stock option information as at November 30, 2021 (options outstanding in US\$).

Price range		Number of options outstanding	Weighted average remaining life (years)	Weighted average exercise price	
				US\$	US\$
2.01 – 3.75		80,733	9.32	3.09	

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Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

21. Share capital and warrants (continued)

(g) Stock option plan (continued)

For the year ended November 30, 2021, \$1,879 (2020 – \$1,414) was recorded as share-based compensation expense for the stock option plan. The fair value of options granted in 2021 and 2020 was estimated at the grant date using the Black-Scholes model and the following weighted average assumptions.

Options granted in CA\$	2021	2020
Risk-free interest rate	1.35%	0.95%
Expected volatility	70%	74%
Average option life in years	8.5 years	8.5 years
Grant-date share price	\$ 3.10 (CA\$3.94)	\$ 2.25 (CA\$3.06)
Option exercise price	\$ 3.10 (CA\$3.94)	\$ 2.25 (CA\$3.06)

Options granted in US\$	2021	2020
Risk-free interest rate	1.37%	0.74%
Expected volatility	72%	78%
Average option life in years	8.5 years	8.5 years
Grant-date share price	\$ 3.18	\$ 2.35
Option exercise price	\$ 3.18	\$ 2.35

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Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

21. Share capital and warrants (continued)

(g) Stock option plan (continued)

The risk-free interest rate is based on the implied yield on a Canadian or U.S. 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, 2021 and 2020.

Options granted in CA\$	Number of stock options granted		Weighted average grant date fair value
2021	1,057,831	\$	2.13 (CA\$2.72)
2020	1,077,721	\$	1.71 (CA\$2.22)

Options granted in US\$	Number of stock options granted		Weighted average grant date fair value
2021	102,608	\$	2.22
2020	12,500	\$	1.70

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.

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Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

21. Share capital and warrants (continued)

(h) Loss per share

The calculation of basic loss per share was based on the net loss attributable to common shareholders of the Company of \$31,725 (2020 – \$22,667) and a weighted average number of common shares outstanding of 92,350,198 (2020 – 76,991,635), calculated as follows.

	2021	2020
Issued common shares as at December 1	77,013,411	76,953,411
Effect of share options exercised	374,247	38,224
Effect of public issue common shares	14,816,285	-
Effect of broker warrants exercised	146,255	-
Weighted average number of common shares, basic and diluted	92,350,198	76,991,635

For the year ended November 30, 2021, 3,271,017 (2020 – 3,216,193) share options, 8,130,550 Warrants (2020 – nil) and 3,872,053 common shares potentially issuable from the conversion of the \$57,500 aggregate principal amount of convertible unsecured senior notes (Note 18), that may potentially dilute earnings per share in the future, were excluded from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive.

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

(i) Accumulated other comprehensive income (loss)

	2021	2020
Unrealized losses on FVOCI financial assets, net of tax	\$ (195)	\$ 2
Cumulative exchange difference on translation of foreign operations	151	(483)
	\$ (44)	\$ (481)

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

22. Income taxes

The following table presents the components of the current and deferred tax expenses (recovery).

	2021	2020
Current tax expense	\$ 63	\$ 16
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	\$ (7,796)	\$ (4,890)
Change in unrecognized deductible temporary differences	7,796	4,890
Total deferred tax expense (recovery)	\$ -	\$ -
Total current and deferred tax expense	\$ 63	\$ 16
Reconciliation between effective and applicable tax amounts		
	2021	2020
Income taxes at domestic tax statutory rate	\$ (8,390)	\$ (6,004)
Change in unrecognized deductible temporary differences	7,796	4,890
Impact of differences in statutory tax rates	64	742
Non-deductible expenses and other	593	388
Total income tax expense	\$ 63	\$ 16

The applicable statutory tax rates were 26.5% in 2021 and 2020. The Company's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Company operates.

Theratechnologies Inc.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

22. Income taxes (continued)

Unrecognized deferred tax assets

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

	2021		2020
Research and development expenses	\$ 26,046	\$	24,924
Non-capital losses	38,615		31,725
Property and equipment	225		242
Intellectual property and patent fees	3,054		2,952
Available deductions and other	7,535		5,045
	\$ 75,475	\$	64,888

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, no amount has been recognized in the consolidated statements of financial position.

The generation of future taxable profit is dependent on the successful commercialization of the Company's products and technologies.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

22. Income taxes (continued)

Unrecognized deferred tax assets (continued)

As at November 30, 2021 and 2020, the amounts and expiry dates of Canadian tax attributes for which no deferred tax asset was recognized were as follows:

	2021		2020	
	Federal	Provincial	Federal	Provincial
Research and development expenses, without time limitation	\$ 89,740	\$ 109,034	\$ 85,792	\$ 104,822
Losses carried forward				
2027	5,960	5,952	5,760	5,753
2028	36,877	17,949	35,640	17,347
2029	15,513	13,111	14,993	12,672
2030	9,109	9,105	8,803	8,800
2031	18,758	16,651	18,129	16,092
2032	12,709	11,669	12,282	11,278
2033	9,132	9,046	8,826	8,742
2034	8,362	8,289	8,082	8,011
2037	7,462	7,373	7,212	7,126
2038	2,177	2,095	2,104	2,025
2039	1,434	1,394	1,386	1,347
2040	7,832	7,805	6,928	6,921
2041	21,220	21,153	-	-
Other temporary differences, without time limitation				
Excess of tax value of property and equipment over carrying value	869	838	959	870
Excess of tax value of intellectual property and patent fees over carrying value	11,522	11,518	11,136	11,131
Available deductions and other	60,940	16,607	50,470	7,619

As at November 30, 2021 and 2020, no deferred tax liability was recognized for temporary differences arising from investments in subsidiaries because the Company controls the decisions affecting the realization of such liabilities and it is probable that the temporary differences will not reverse in the foreseeable future.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

23. Supplemental cash flow disclosures

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

	2021	2020
Additions to property and equipment included in accounts payable and accrued liabilities	\$ -	\$ 12
Deferred financing costs included in accounts payable and accrued liabilities	174	-
Initial recognition of right-of-use assets and lease liabilities	-	3,192
Reclassification of other liabilities to right-of-use-assets	-	238

24. 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.

Credit risk

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

The Company's exposure to credit risk currently relates to accounts receivable with one major customer (see Note 28), other receivable 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 \$9,261 (2020 – \$10,947), all of which were aged under 60 days. There was no amount recorded as bad debt expense for the years ended November 30, 2021 and 2020. Financial instruments other than cash and trade and other receivables that potentially subject the Company to significant credit risk consist principally of bonds and money market funds. The Company invests its available cash in highly liquid fixed income instruments from governmental, paragonovernmental, municipal and high-grade corporate bodies and money market funds (2021 – \$19,955; 2020 – \$8,031). As at November 30, 2021, the Company believes it was not exposed to any significant credit risk. The Company's maximum credit exposure corresponded to the carrying amount of these financial assets.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

24. Financial instruments (continued)

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 25, 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, 2021 and 2020.

					2021
	Carrying amount	Total contractual amount	Less than 1 year	From 1 to 2 years	More than 3 years
Accounts payable and accrued liabilities	\$ 40,376	\$ 40,376	\$ 40,376	-	-
Convertible unsecured senior notes, including interest	54,227	64,113	3,306	60,807	-
Lease liabilities	2,518	2,973	624	1,275	1,074
	\$ 97,121	\$ 107,462	\$ 44,306	\$ 62,082	\$ 1,074

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

24. Financial instruments (continued)

Liquidity risk (continued)

				2020	
	Carrying amount	Total contractual amount	Less than 1 year	From 1 to 2 years	More than 3 years
Accounts payable and accrued liabilities	\$ 34,815	\$ 34,815	\$ 34,815	-	-
Convertible unsecured senior notes, including interest	52,403	67,419	3,306	64,113	-
Long-term obligations	4,666	5,000	5,000	-	-
Lease liabilities	2,980	3,640	621	1,267	1,752
	\$ 94,864	\$ 110,874	\$ 43,742	\$ 65,380	\$ 1,752

Currency risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates. Currency risk is limited to the portion of the Company's business transactions denominated in currencies other than US\$, primarily cash, sale of goods and expenses incurred in CA\$ and Euro.

Exchange rate fluctuations for foreign currency transactions can cause cash flows, as well as amounts recorded in the consolidated statements of net 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\$ 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 net loss. The Company does not believe a sudden change in foreign exchange rates would impair or enhance its ability to pay its CA\$ or Euro denominated obligations.

The following table presents the significant items in the original currencies exposed to currency risk as at November 30, 2021 and 2020.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of United States dollars, unless otherwise stated)

Years ended November 30, 2021 and 2020

24. Financial instruments (continued)

Currency risk (continued)

	2021		2020	
	CA\$	EURO	CA\$	EURO
Cash	589	61	871	36
Bonds and money market funds	16,298	-	821	-
Trade and other receivables	331	1,553	522	1,052
Tax credits and grants receivable	385	123	942	25
Accounts payables and accrued liabilities	(6,819)	(7,256)	(4,937)	(4,496)
Lease liabilities	(1,755)	(1,010)	(2,109)	(1,138)
Provisions	-	(1,970)	-	-
Total exposure	9,029	(8,499)	(3,890)	(4,521)

The following exchange rates are those applicable as at November 30, 2021 and 2020.

	2021		2020	
	Average rate	Reporting date rate	Average rate	Reporting date rate
CA\$ – US\$	0,7979	0,7822	0.7445	0.7695
Euro – US\$	1,1906	1,1338	1.1325	1.1928

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
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24. Financial instruments (continued)

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 CA\$ or the Euro would have an impact on net earnings for CA\$ and in the accumulated other comprehensive loss for Euro as follows, assuming that all other variables remained constant.

	2021		2020	
	CA\$	EURO	CA\$	EURO
Positive (negative) impact	451	(425)	(195)	(226)

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

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 (loss).

Based on the value of the Company's short- and long-term bonds as at November 30, 2021, an assumed 0.5% decrease in market interest rates would have increased the fair value of these bonds and the accumulated other comprehensive income (loss) by approximately \$141 (2020 – nil); an assumed increase in market interest rates of 0.5% would have an equal but opposite effect, assuming that all other variables remained constant.

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

Based on the average value of variable interest-bearing cash and money market funds during the year ended November 30, 2021 of \$41,491 (2020 – \$28,124), an assumed 0.5% increase in interest rates during such year would have increased future cash flows and net profit by approximately \$207 (2020 – \$141); an assumed decrease of 0.5% would have had an equal but opposite effect.

THE RATECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
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Years ended November 30, 2021 and 2020

24. Financial instruments (continued)

Interest rate risk (continued)

As the Company's convertible unsecured senior notes bear interest at a fixed rate of 5.75%, the Company does not face cash flow interest rate risk, but is subject to market price interest rate risk. The Company's long-term obligations do not bear interest.

25. Capital management

The Company's objective in managing its capital is to ensure a liquidity position sufficient to finance its business activities. The Company depends primarily on revenue generated by sales of *EGRIFTA SV*[®] as well as sales of Trogarzo[®] in the United States and Europe, and, from time to time, on public offerings of securities in North America to finance its activities. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Company has also announced that it will evaluate its options in funding late stage development programs, which may include seeking a potential partner or additional financing. The Company is also evaluating its options with respect to the convertible debentures which becomes due in June 2023. During the year, the Company entered into an ATM program (see note 21(c)) under which it may sell, from time to time, up to \$50 million of its common shares.

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

As at November 30, 2021, cash, bonds and money market funds amounted to \$40,354 (2020 – \$20,768). The Company believes that its cash position and future operating cash flows will be sufficient to finance its operations and capital needs for at least the next 12 months from the consolidated statement of financial position date.

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

The Company defines capital to include total equity and convertible unsecured senior notes.

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

26. 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.

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Notes to Consolidated Financial Statements (continued)
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26. Determination of fair values (continued)

Financial assets and financial liabilities measured at fair value

In establishing fair value, the Company uses a fair value hierarchy based on levels as defined below:

Level 1: Defined as observable inputs such as quoted prices in active markets.

Level 2: Defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3: Defined as inputs that are based on little or no observable market data, therefore requiring entities to develop their own assumptions.

Other financial assets and financial liabilities

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

Bonds and money market funds and derivative financial assets and financial 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 senior notes, including the equity portion, as at November 30, 2021 was approximately \$52,756 (2020—\$43,125) (Level 1) based on market quotes.

Share-based payment transactions

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

The DSU 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.

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Notes to Consolidated Financial Statements (continued)
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Years ended November 30, 2021 and 2020

27. Commitments

(a) Long-term procurement agreements and research agreements

The Company has long-term procurement agreements with third party suppliers in connection with the commercialization of *EGRIFTA SV*[®] and Trogarzo[®]. As at November 30, 2021, the Company had outstanding purchase orders and minimum payments required under these agreements amounting to \$6,598 (2020 – \$14,042) for the manufacture of Trogarzo[®], *EGRIFTA SV*[®] and for various services.

As at November 30, 2021, the Company also has research commitments and outstanding clinical material purchase orders amounting to \$1,253 (2020 – \$586) in connection with the oncology platform and \$724 (2020 – \$1,217) in connection with a new formulation of tesamorelin and of a multi-dose pen injector developed for this new formulation.

(b) Credit facilities

The Company has a CA\$1,500 revolving credit facility bearing interest at Canadian prime rate plus 1% and a \$1,000 revolving credit facility bearing interest at US prime rate plus 1%. The Company's assets have been given as collateral to secure these credit facilities. As at November 30, 2021 and 2020, the Company did not have any borrowings outstanding under these facilities.

(c) Licence agreement

On February 4, 2020, the Company entered into an amended and restated licence agreement with the Massachusetts General Hospital ("MGH"), as amended on April 15, 2020, in order to benefit from its assistance and knowledge for the development of tesamorelin for the potential treatment of Non-Alcoholic Steatohepatitis ("NASH") in the general population. Under the terms of the amended agreement, the MGH, through Dr. Steven Grinspoon, will provide services related to the study design, selection of optimal patient population, dosing, study duration and other safety matters and participate, if need be, in regulatory meetings with the FDA or the EMA. In consideration, we agreed to make certain milestone payments to the MGH related to the development of tesamorelin and to pay a low single-digit royalty on all sales of *EGRIFTA*[®] and *EGRIFTA SV*[®] above a certain threshold amount. The payment of the royalty will begin upon approval by the FDA or the EMA (the first to occur) of an expanded label of tesamorelin for the treatment of any fatty liver disease, including Non-Alcoholic Fatty Liver Disease or NASH in the general population.

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27. Commitments (continued)

(d) Post-approval commitments

In connection with the approval of Trogarzo® in Europe, we are required to conduct a pediatric investigation plan, or PIP, and a post-authorization efficacy study, or Registry. The PIP comprises two studies: the first one consists in evaluating the pharmacokinetics, pharmacodynamics, safety and tolerability of Trogarzo® in children from 6 to less than 18 years of age with HIV-1 infection in order to provide pharmacokinetics and pharmacodynamics data to support the extrapolation of efficacy from adults; and the second study is a modelling and simulation study to evaluate the use of Trogarzo® in the treatment of HIV-1 infection resistant to at least one agent in three different classes in children from 6 to less than 18 years of age. The Registry consists primarily in evaluating the long-term efficacy and durability of Trogarzo® in combination with other antiretrovirals by comparing the virologic, immunologic and clinical outcomes of patients receiving Trogarzo® treatment versus matched patients not receiving Trogarzo®. The study comprising the Registry should be conducted over a five-year period. The cost of the Registry, estimated to be approximately 4,000 Euros, will be borne as to 52% by TaiMed and as to 48% by the Company.

28. Operating segments

The Company has a single operating segment. As described in Note 3, almost all of the Company's revenues are generated from one customer, RxCrossroads, which is domiciled in the United States.

	2021	2020
RxCrossroads	\$ 68,917	\$ 63,909
Others	906	2,144
	\$ 69,823	\$ 66,053

All of the Company's non-current assets are located in Canada and Ireland. Of the Company's non-current assets of \$27,304 (2020 – \$35,335), \$26,211 (2020 – \$34,006) are located in Canada and \$1,093 (2020 – \$1,329) are located in Ireland.

Theratechnologies Inc.

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Years ended November 30, 2021 and 2020

29. Related parties

The key management personnel of the Company are the directors, the President and Chief Executive Officer and all of the Senior Vice Presidents.

Key management personnel compensation comprises:

	2021	2020
Short-term employee benefits	\$ 2,690	\$ 2,384
Post-employment benefits	72	97
Share-based compensation	1,243	925
Termination benefits	-	864
	\$ 4,005	\$ 4,270

As at November 30, 2021, the key management personnel controlled 0.7% (2020 – 1.4%) of the voting shares of the Company and held 0.2% (2020 – 0.2%) of the convertible unsecured senior notes.

30. Subsequent events

On December 1, 2021, the Company granted 2,099,651 stock options at an exercise price of CA \$4.21 and 269,170 stock options at an exercise price of \$3.30.

On November 23, 2021, the Company filed a short form base shelf prospectus with the Securities and Exchange Commission and Canadian securities regulatory authorities with the intent of filing a prospectus supplement to renew the prospectus supplement of July 23, 2021 relating to the \$50,000 ATM facility. Such prospectus supplement was filed on December 16, 2021 and the ATM was renewed (see Note 21 (c)).