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

THERATECHNOLOGIES INC.

Three-month periods ended February 28, 2023 and 2022

(Unaudited)

THERATECHNOLOGIES INC.

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(In thousands of United States dollars)
(Unaudited)

THERATECHNOLOGIES INC.

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

As at February 28, 2023 and November 30, 2022
(Unaudited)

	Note		February 28, 2023		November 30, 2022
Assets					
Current assets					
Cash		$	20,023	$	23,856
Bonds and money market funds			9,133		9,214
Trade and other receivables			10,010		12,045
Tax credits and grants receivable			373		299
Inventories			15,110		19,688
Prepaid expenses and deposits			6,021		7,665
Derivative financial assets			266		603
Total current assets			60,936		73,370
Non-current assets					
Property and equipment			1,536		1,494
Right-of-use assets	8		694		1,595
Intangible assets			14,271		15,009
Deferred financing costs			1,803		1,792
Total non-current assets			18,304		19,890
Total assets		$	79,240	$	93,260
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	34,083	$	41,065
Provisions	5		8,249		7,517
Convertible unsecured senior notes	7		27,110		26,895
Term loan			-		37,894
Current portion of lease liabilities	8		329		476
Warrants	9(b)		2,650		-
Income taxes payable			490		394
Deferred revenue			38		38
Total current liabilities			72,949		114,279
Non-current liabilities					
Term loan	6		37,955		-
Lease liabilities	8		591		1,446
Other liabilities			56		106
Total non-current liabilities			38,602		1,552
Total liabilities			111,551		115,831
Equity					
Share capital and warrants	9		338,751		338,751
Equity component of convertible unsecured senior notes			2,132		2,132
Contributed surplus			19,436		18,810
Deficit			(393,092)		(382,649)
Accumulated other comprehensive income			462		385
Total equity			(32,311)		(22,571)
Total liabilities and equity		$	79,240	$	93,260

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

THERATECHNOLOGIES INC.

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

Three-month periods ended February 28, 2023 and 2022
(Unaudited)

	Note		2023		2022
Revenue	3	$	19,908	$	18,557
Operating expenses					
Cost of sales					
Cost of goods sold			4,693		4,878
Amortization of other asset			-		1,221
Research and development expenses, net of tax credits of $72 (2022 – $87)			9,356		8,003
Selling expenses			6,814		7,807
General and administrative expenses			4,452		4,368
Total operating expenses			25,315		26,277
Loss from operating activities			(5,407)		(7,720)
Finance income	4		348		59
Finance costs	4		(5,288)		(1,344)
			(4,940)		(1,285)
Loss before income taxes			(10,347)		(9,005)
Income tax expense			(96)		(27)
Net loss for the period			(10,443)		(9,032)
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”) financial assets			77		(103)
Exchange differences on translation of foreign operations			-		97
			77		(6)
Total comprehensive loss for the period		$	(10,366)	$	(9,038)
Basic and diluted loss per share	9(d)		(0.11)		(0.09)

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

THERATECHNOLOGIES INC.

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

Three-month periods ended February 28, 2023 and 2022
(Unaudited)

For the three-month period ended February 28, 2023

	Note	Share capital and Public Offering Warrants – Number of shares	Share capital and Public Offering Warrants – Amount	Equity component of convertible notes	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
Balance as at November 30, 2022		96,806,299	338,751	2,132	18,810	(382,649)	385	(22,571)
Total comprehensive loss for the period		-	-	-		(10,443)	-	(10,443)
Net loss for the period								
Other comprehensive income (loss):								
Net change in fair value of FVOCI financial assets, net of tax		-	-	-	-	-	77	77
Total comprehensive loss for the period		-	-	-		(10,443)	77	(10,366)
Transactions with owners, recorded directly in equity								
Share-based compensation for stock option plan	9(c)	-	-	-	626	-	-	626
Total contributions by owners		-	-	-	626	-	-	626
Balance as at February 28, 2023		96,806,299	$ 338,751	$ 2,132	$ 19,436	$ (393,092)	$ 462	$ (32,311)

For the three-month period ended February 28, 2022

	Note	Share capital and Public Offering Warrants – Number of shares	Share capital and Public Offering Warrants – Amount	Equity component of convertible notes	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total
Balance as at November 30, 2021		95,121,639	$ 335,752	$ 4,457	$ 12,843	$ (335,248)	$ (44)	$ 17,760
Total comprehensive loss for the period								
Net loss for the period		-	-	-	-	(9,032)	-	(9,032)
Other comprehensive income (loss):								
Net change in fair value of FVOCI financial assets, net of tax		-	-	-	-	-	(103)	(103)
Exchange differences on translation of foreign operation		-	-	-	-	-	97	97
Total comprehensive loss for the period		-	-	-	-	(9,032)	(6)	(9,038)
Transactions with owners, recorded directly in equity								
Share-based compensation for stock option plan		-	-	-	1,438	-	-	1,438
Total contributions by owners		-	-	-	1,438	-	-	1,438
Balance as at February 28, 2022		95,121,639	$ 335,752	$ 4,457	$ 14,281	$ (344,280)	$ (50)	$ 10,160

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

THERATECHNOLOGIES INC.

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

Three-month periods ended February 28, 2023 and 2022
(Unaudited)

	Note		2023		2022 (recast[1])
Cash flows from (used in)					
Operating					
Net loss for the period		$	(10,443)	$	(9,032)
Adjustments for					
Depreciation of property and equipment			98		58
Amortization of intangible and other assets			739		2,016
Amortization of right-of-use assets			102		110
Share-based compensation for stock option plan and stock appreciation rights			576		1,442
Gain on lease termination	8		(121)		-
Change in fair value of derivative financial assets			331		118
Change in fair value of liability related to deferred stock unit plan			(155)		(115)
Interest on convertible unsecured senior notes and term loan	4		1,784		802
Interest paid on convertible unsecured senior notes and term loan			(2,188)		(1,653)
Interest income			(227)		(46)
Interest received			240		68
Income tax expense			96		27
Foreign exchange			285		(44)
Loss on debt modification – issuance of warrants	9b)		2,650		-
Accretion expense and amortization of deferred financing costs	4		533		517
			(5,700)		(5,732)
Change in operating assets and liabilities					
Trade and other receivables			2,085		(3,162)
Tax credits and grants receivable			(72)		122
Inventories			4,578		2,948
Prepaid expenses and deposits			1,644		2,245
Accounts payable and accrued liabilities			(6,545)		(3,258)
Provisions			671		1,147
			2,361		42
			(3,339)		(5,690)
Financing activities					
Share issue costs			(37)		-
Payments of lease liabilities	8		(125)		(156)
Deferred financing costs			-		(170)
			(162)		(326)
Investing activities					
Acquisition of bonds and money market funds			-		(2)
Acquisition of derivative financial assets			(104)		-
Acquisition of property and equipment			(222)		(44)
			(326)		(46)
Net change in cash during the period			(3,827)		(6,062)
Cash, beginning of period			23,856		20,399
Effect of foreign exchange on cash			(6)		5
Cash, end of period		$	20,023	$	14,342

[1] The company voluntarily changed its accounting policy to classify interest paid and received as part of operating activities, see Note 2.

Refer to Note 10 for supplemental cash flow disclosures.

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

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

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

The Company has two wholly-owned subsidiaries that are material:

- Theratechnologies Europe Limited, a company governed by the *Companies Act 2014* (Ireland). Theratechnologies Europe Limited provides the services of personnel to Theratechnologies Inc. for its activities in the United States.

- Theratechnologies U.S., Inc., a company governed by the *Delaware General Corporation Law* (Delaware). Theratechnologies U.S., Inc. provides the services of personnel to Theratechnologies Inc. for its activities in the United States.

Theratechnologies Inc. is governed by the *Business Corporations Act* (Québec) and is domiciled in Québec, Canada. The Company is located at 2015 Peel Street, Suite 1100, Montréal, Québec, H3A 1T8, Canada.

1. Basis of preparation

(a) Accounting framework

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

Certain information, in particular the accompanying notes normally included in the annual consolidated financial statements prepared in accordance with IFRS, has been omitted or condensed. These interim financial statements do not include all disclosures required under IFRS and, accordingly, should be read in conjunction with the annual consolidated financial statements for the year ended November 30, 2022 and the notes thereto.

These interim financial statements have been authorized for issue by the Company's Audit Committee on April 11, 2023.

1. Basis of preparation (continued)

(b) Going concern uncertainty

As part of the preparation of the interim financial statements, management is responsible for identifying any event or situation that may cast doubt on the Company’s ability to continue as a going concern. Substantial doubt regarding the Company’s ability to continue as a going concern exists if events or conditions, considered collectively, indicate that the Company may be unable to honor its obligations as they fall due during a period of at least, but not limited to, 12 months from February 28, 2023. If the Company concludes that events or conditions cast substantial doubt on its ability to continue as a going concern, it must assess whether the plans developed to mitigate these events or conditions will remove any possible substantial doubt.

For the three-month period ended February 28, 2023, the Company incurred a net loss of $10,443 (2022 – $9,032) and had positive operating cash flows of $2,361 (2022 - $42). The Company’s total current liabilities exceeded total current assets at February 28, 2023. The Company’s outstanding $27,467 convertible unsecured senior notes mature in June 2023 (refer to Note 7) requiring the Company to use its cash balance and draw the Tranche 2 Loan (as defined in Note 6) of its term loan facility available (the “Loan Facility”) to repay the principal and the interest thereon. The Loan Facility is available in four tranches and contains various covenants, including minimum liquidity covenants whereby the Company needs to maintain significant cash, cash equivalent and eligible short-term investments balances in specified accounts, which restricts the management of the Company’s liquidity (refer to notes 18 and 24 of the annual consolidated financial statements as at November 30, 2022). There are also operational milestones and required revenue targets in order for the Company to comply with the conditions of the Loan Facility and to be able to borrow money forming part of the various tranches.

The Company’s ability to continue as a going concern for period of at least, but not limited to, 12 months from February 28, 2023 involves significant judgement and is dependent on its ability to increase revenues and manage expenses to generate sufficient positive cash flows from operations and/or find alternative source of funding to respect all the various covenants of its Loan Facility, including obtaining the approval from the United States Food and Drug Administration for its F8 formulation of Tesamorelin on or before March 31, 2024, and/or to obtain the continued support of its lender. Management believes its plans will comply with all of the other various covenants of the Loan Facility to draw the Tranche 2 Loan, repay all the convertible unsecured senior notes due June 30, 2023, and to comply with the covenants for the foreseeable future. However, there can be no assurance that management’s plans will be realized since some elements of these plans are outside of management’s control and cannot be predicted at this time. Should management’s plans not materialize, the Company may be forced to reduce or delay expenditures and capital additions, seek additional financing through the issuance of equity or obtain from the lender waivers of these covenants, if available. Raising additional equity capital is subject to market conditions. As a result, there is material uncertainty related to events or conditions that cast substantial doubt about the Company’s ability to continue as a going concern.

1. Basis of preparation (continued)

(b) Going concern uncertainty (continued)

Furthermore, the Loan Facility includes a covenant prohibiting having a going concern explanatory paragraph in the annual report of the independent registered public accounting firm but the lender amended the Loan Facility on February 27, 2023 to exclude the fiscal year ended November 30, 2022. The term loan has been reclassified from current at November 30, 2022 to long-term at February 28, 2023 as a result of the waiver received within the first quarter. There is no assurance that the lender will agree to amend or to waive potential future covenant breaches, if any.

These interim financial statements have been prepared assuming the Company will continue as a going concern, which assumes the Company will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These interim financial statements do not include any adjustments to the carrying values and classification of assets and liabilities and reported expenses that might result from the outcome of this uncertainty and that may be necessary if the going concern basis was not appropriate for these interim financial statements. If the Company was unable to continue as a going concern, material impairment of the carrying values of the Company's assets, including intangible assets, could be required.

(c) Basis of measurement

The Company's interim financial statements have been prepared on going concern and historical cost bases, except for bonds and money market funds, derivative financial assets, liabilities related to cash-settled share-based arrangements and warrant liabilities, which are measured at fair value. Equity-classified shared-based payment arrangements are measured at fair value at grant date pursuant to IFRS 2, *Share-based Payment*.

The methods used to measure fair value are discussed further in Note 12.

(d) Use of estimates and judgments

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

Information about critical judgments in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the interim financial statements are disclosed in Note 1 of the annual consolidated financial statements as at November 30, 2022.

1. Basis of preparation (continued)

(e) Functional and presentation currency

The Company's functional currency is the United States dollar ("USD").

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

2. Significant accounting policies

The significant accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended November 30, 2022 have been applied consistently in the preparation of these interim financial statements.

Changes in accounting policies

In the fourth quarter of fiscal 2022, the Company voluntarily changed its accounting policy to classify interest paid and received as part of operating activities in the consolidated statement of cash flows. Previously, the Company elected to classify interest paid as cash flow from financing activities and interest received as cash flows from investing activities. Accordingly, the Company has recast the three-month period ended February 28, 2022, comparative financial information on the consolidated statement of cash flows resulting in previously reported cash flow from operation decreasing by $1,585, cash flow used in financing by $1,653 and cash flow used in investing activities increased by $68.

Previously reported cash flows for the three-month period ended February 28, 2022, from operating activities, used in financing activities and in investing activities were $4,105, $1,959 and $22, respectively.

New standard adopted

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 the Company's annual reporting periods beginning on December 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 adoption of the standard did not have an impact on the financial statements.

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

2. Significant accounting policies (continued)

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after December 1, 2022 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated interim financial statements. Refer to Note 1 of the annual consolidated financial statements as at November 30, 2022 for a description of those standards.

3. Revenue

Net sales by product were as follows:

		2023		2022
EGRIFTA SV®	$	12,711	$	11,704
Trogarzo®		7,197		6,853
	$	19,908	$	18,557

Net sales by geography were as follows:

		2023		2022
Canada	$	-	$	145
United States		19,645		18,099
Europe		263		313
	$	19,908	$	18,557

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

4. Finance income and finance costs

	Note	2023	2022
Net foreign currency gain		$ -	$ 13
Gain on lease termination		121	-
Interest income		227	46
Finance income		348	59
Accretion expense and amortization of deferred financing costs	6, 7 and 8	(533)	(517)
Interest on convertible unsecured senior notes and term loan		(1,784)	(802)
Bank charges		(20)	(22)
Loss on financial instruments carried at fair value		(176)	(3)
Net foreign currency loss		(125)	-
Loss on debt modification – Issuance of warrants		(2,650)	-
Finance costs		(5,288)	(1,344)
Net finance costs recognized in net profit or loss		$ (4,940)	$ (1,285)

5. Provisions

	Chargebacks and rebates	Returns	Total
Balance as at November 30, 2021	$ 3,713	$ 410	$ 4,123
Provisions made	12,910	2,004	14,914
Provisions used	(10,358)	(929)	(11,287)
Effect of change in exchange rate	(233)	-	(233)
Balance as at November 30, 2022	$ 6,032	$ 1,485	$ 7,517
Provisions made	3,819	313	4,132
Provisions used	(3,373)	(88)	(3,461)
Effect of change in exchange rate	61	-	61
Balance as at February 28, 2023	$ 6,539	$ 1,710	$ 8,249

6. Term Loan

On July 20, 2022, the Company entered into a credit agreement providing for up to $100,000 (the “Loan Facility”) in loan. The disbursement of the loan is available in four various tranches.

The salient features of the Loan Facility are as follows:

- Senior secured term loan of up to $100,000 across four tranches;
- $40,000 funded on July 27, 2022 (“Tranche 1 Loan”);
- $20,000 (“Tranche 2 Loan”) to be made available no later than June 30, 2023 if the Company has had net revenues of at least $75,000 for the 12-month period immediately preceding the funding of the Tranche 2 Loan, conditional upon the submission to the FDA of the results from a human factors validation study the Company is currently conducting (the “HFS Study”) and subject to the Company not being in default of its obligations under the Loan Facility. Subsequent to year-end, the lender removed the condition to submit to the FDA the results from the HFS Study the Company is currently conducting. If the other conditions to obtain Tranche 2 Loan are not met by June 30, 2023, then it nor any other tranche will be available;
- $15,000 (“Tranche 3 Loan”) to be made available no later than March 2024 if the Tranche 2 Loan has been drawn and the Company has obtained approval from the FDA for its F8 formulation of tesamorelin, has had net revenues of at least $90,000 in the 12-month period preceding the funding of the Tranche 3 Loan and if the Company is not in default of its obligations under the Loan Facility;
- Up to an additional $25,000 (“Tranche 4 Loan”) to be made available if the Tranche 3 Loan has been drawn and the Company has had at least $110,000 in net revenues in the 12-month period preceding the funding of the Tranche 4 Loan and at least $20,000 in EBITDA for the same period (as defined in the Loan Facility document until December 31, 2024);
- The Loan Facility has an initial term of five years (six years if Tranche 3 Loan is drawn), provides for an interest-only period of 24 months (36 months if Tranche 3 Loan is drawn), and bears interest at the Secured Overnight Financing Rate (“SOFR”) plus 9.5%. The Tranche 1 Loan and Tranche 2 Loan are repayable in equal monthly installments on an amortization schedule of 36 months starting in July 2024 (July 2025 if the Tranche 3 Loan is funded on or prior to December 31, 2023);
- The Loan Facility provides quarterly revenue targets and minimum liquidity covenants. Until the F8 formulation is approved, the Company must maintain at all times cash, cash equivalents and eligible short-term investments in the amount of $20,000 in specified accounts which amount will be increased to $30,000 if the Company has not obtained approval from the FDA for its F8 formulation by March 31, 2024;
- The Loan Facility restricts the ability to incur additional debt, acquisitions, dispositions, in-licensing and out-licensing of products or assets, except in very limited circumstances. A breach of the terms and conditions of the Loan Facility will create an event of default resulting in an increase of 300 basis points on the outstanding loan and provide the lender with the ability to demand immediate repayment of the debt, and not advance any additional tranches;

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

6. Term Loan (continued)

- The term loan also includes a covenant prohibiting the inclusion of a going concern explanatory paragraph in the annual report of the independent registered public accounting firm, but the lender amended the Loan Facility on February 27, 2023 to exclude for the fiscal year ended November 30, 2022;
- Refer to note 9(b) for warrants issued this quarter related to the February 27, 2023 amendments to this term loan.

The movement in the carrying value of the term loan is as follows:

Proceeds from Loan Facility on July 27, 2022	$	40,000
Transaction costs		(2,285)
Accretion expense		179
Term loan as at November 30, 2022	$	37,894
Accretion expense		139
Transaction costs		(78)
Term loan as at February 28, 2023	$	37,955

The lender has a first ranking security interest on all of our assets, subject to certain credit card arrangements restrictions.

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

7. Convertible unsecured senior notes

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

Convertible unsecured senior notes as at November 30, 2021	$	54,227
Changes from financing cash flows:		
Cash paid on repurchase		(28,546)
Transaction costs incurred		(73)
Other changes:		
Gain on repurchase		(357)
Accretion expense		1,644
Convertible unsecured senior notes as at November 30, 2022	$	26,895
Accretion expense		215
Convertible unsecured senior notes as at February 28, 2023	$	27,110

The convertible unsecured senior notes mature on June 30, 2023.

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

8. Lease liabilities

		Carrying value
Balance as at November 30, 2021	$	2,518
Accretion expense		157
Lease payments		(605)
Effect of change in exchange rates		(148)
Balance as at November 30, 2022	$	1,922
Accretion expense		32
Lease payments		(125)
Effect of change in exchange rates		11
Termination (a)		(920)
Balance as at February 28, 2023		920
Current portion		(329)
Non-current portion	$	591

(a) On February 17, 2023, the Company terminated its lease in Ireland. Accordingly, the Company reduced its right-of-use assets by $799, the lease liabilities by $920 and recorded a gain on lease termination of $121. The gain is presented in finance costs (Note 4)

9. Share capital and warrants

(a) Public offering Warrants

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 is comprised of one common share of the Company and one-half of one common share purchase warrant of the Company (each whole warrant, a “Public offering Warrant”). During the first quarter ended February 28, 2023, no Public offering Warrants were exercised and there were 8,130,550 Public offering Warrants outstanding. Each Public offering Warrant entitles the holder thereof to purchase one common share at an exercise price of US$3.18 at any time until January 19, 2024.

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

9. Share capital and warrants (continued)

(b) Marathon Warrants

On February 27, 2023, the Company issued to affiliates of Marathon Asset Management (collectively, “Marathon”), prorata to their participation under the Loan Facility, an aggregate of 5,000,000 common share purchase warrants (the “Marathon Warrants”). Each Marathon Warrant entitles the holder thereof to subscribe for one common share of the Company at a price of $1.45 for a period of seven years. The Marathon Warrants are not traded on any stock exchange, are transferable only to affiliates of Marathon or to other potential lenders under the terms of the Loan Facility and their affiliates and may be exercised on a cashless basis. Accordingly, the Marathon Warrants are derivative financial liabilities measured at fair value through profit or loss.

The Marathon Warrants were issued as consideration for various amendments made to the Loan Facility, including:

- An amendment to remove the second tranche condition requiring the Company to have filed with the FDA the results of its HFS Study before June 30, 2023; and

- An amendment to allow for the inclusion of a going concern explanatory paragraph in the annual report of the independent registered public accounting firm for the fiscal year ended November 30, 2022.

The fair value of the Marathon Warrants was treated as a cash outflow in testing whether the debt modification was substantial modification. For the three-month period ended February 28, 2023, $2,650 was recorded as loss on debt modification using the Black-Sholes model and the following weighted average assumptions. The derivative financial liability relating to the Marathon Warrants is recorded as a liability on the consolidated statement of financial position.

		Measurement date as at February 28, 2023
Risk-free interest rate		3.92%
Expected volatility		61.985%
Average option life in years		7 years
Share price	$	0.95
Warrant exercise price	$	1.45

With the issuance of the Marathon Warrants, the Company incurred transaction costs totalling $196 which $78 was allocated to the term loan and $118 recorded as deferred financing costs relating to the upcoming Loan Facility tranches.

9. Share capital and warrants (continued)

(c) Stock option plan

The Company has established a stock option plan (the “Plan”) under which it can grant its directors, officers, employees, researchers and consultants non-transferable options for the purchase of common shares. The exercise date of an option may not be later than 10 years after the grant date. On March 3, 2022, the Company’s Board of Directors amended the Plan to convert it from a “fixed plan” to a “rolling plan”, whereby the maximum number of Common Shares which may be issued under the Plan (and under any other security-based compensation arrangements of the Company) was changed from a fixed number of Common Shares to a number of Common Shares equal to 10% of all Common Shares issued and outstanding from time to time, on a non-diluted basis, and including a “reloading” or “evergreen” feature, so that when options are exercised, the number of Common Shares issuable will be replenished and exercised options will be available to be regranted in the future. Shareholders ratified this amendment on May 10, 2022. Generally, the options vest at the grant date or over a period of up to three years. As at February 28, 2023, 549,386 options could still be granted by the Company (2022 – 1,882,015) under the Plan.

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

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

9. Share capital and warrants (continued)

(c) Stock option plan (continued)

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

		Weighted average exercise price per option	
	Number of options	**CAD**	**USD**
Options outstanding in CA$			
Options as at November 30, 2021 – CA$	3,190,284	3.83	3.00
Granted – CA$	2,114,389	4.21	3.29
Options outstanding as at February 28, 2022 – CA$	5,304,673 $	3.99 $	3.14
Options as at November 30, 2022 – CA$	4,720,160	3.98	2.96
Granted – CA$	3,168,773	1.29	0.95
Options outstanding as at February 28, 2023 – CA$	7,888,933	2.90	2.12
Options exercisable as at February 28, 2023 – CA$	3,224,200	3.95	2.89
Options exercisable as at February 28, 2022 – CA$	2,312,323 $	3.95 $	3.12

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

9. **Share capital and warrants** (continued)

(c) Stock option plan (continued)

Options outstanding in US$		
Options as at November 30, 2021 – US$	80,733	3.09
Granted – US$	255,000	2.33
Options outstanding as at February 28, 2022 – US$	335,733	2.51
Options as at November 30, 2022 – US$	426,571	2.50
Granted – US$	815,739	0.95
Options outstanding as at February 28, 2023 – US$	1,242,310	1.48
Options exercisable as at February 28, 2023 – US$	148,057	2.38
Options exercisable as at February 28, 2021 – US$	26,909	3.09

During the three-month period ended February 28, 2023, $626 (2022 – $1,438) was recorded as share-based compensation expense for the Plan. The fair value of options granted during the period was estimated at the grant date using the Black-Scholes model and the following weighted average assumptions:

	2023	2022
Options granted in CA$		
Risk-free interest rate	3.33%	1.57%
Expected volatility	64.3%	66%
Average option life in years	9.5 years	9 years
Grant-date share price	$0.95 (CA$1.29)	$3.32 (CA$4.21)
Option exercise price	$0.95 (CA$1.29)	$3.32 (CA$4.21)

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

9. Share capital and warrants (continued)

(c) Stock option plan (continued)

	2023	**2022**
Options granted in US$		
Risk-free interest rate	3.92%	1.44%
Expected volatility	62%	67%
Average option life in years	9.5 years	9 years
Grant-date share price	$0.95	$3.30
Option exercise price	$0.95	$3.30

The risk-free interest rate is based on the implied yield on a Canadian government or U.S. 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 a period equal to the expected life. 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 period ended:

	For the three-month periods ended	
	Number of options	Weighted average grant date fair value
Options granted in CA$		
February 28, 2023	3,168,773	$ 0.69 (CA$0.94)
February 28, 2022	2,144,389	$ 2.20 (CA$2.79)

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

9. Share capital and warrants (continued)

(c) Stock option plan (continued)

	For the three-month periods ended		
	Number of options		Weighted average grant date fair value
Options granted in US$			
February 28, 2023	815,739	$	0.68
8February 28, 2022	255,000	$	2.20

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 differ 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.

(d) Loss per share

The calculation of basic loss per share was based on the net loss attributable to common shareholders of the Company of $10,443 (2022 – $9,032) and a weighted average number of common shares outstanding of 96,806,299 (2022 – 95,121,639), calculated as follows:

	February 28, 2023	**February 28, 2022**
Issued common shares as at December 1	96,806,299	95,121,639
Weighted average number of common shares, basic and diluted	96,806,299	95,121,639

For the three-month period ended February 28, 2023, 9,131,243 (2022 – 5,640,406) share options, 8,130,550 Public offering Warrants, 5,000,000 Marathon Warrants and 1,851,852 common shares potentially issuable from the conversion of the $27,467 aggregate principal amount of notes, that may potentially dilute loss 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.

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

10. Supplemental cash flow disclosures

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

	February 28, 2023	February 28, 2022
Additions to property and equipment included in accounts payable and accrued liabilities	$ 74	$ -
Deferred financing costs included in accounts payable and accrued liabilities	196	33

11. Financial instruments

The nature and extent of the Company's exposure to risks arising from financial instruments are consistent with the disclosure in the annual consolidated financial statements as at November 30, 2022, considering the update below.

12. Determination of fair values

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

Financial assets and 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.

12. Determination of fair values (continued)

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 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 February 28, 2023, was approximately $24,879 (Level 1) based on market quotes.

The Company has determined that the carrying value of its term loan approximates its fair value because the terms were modified near the end of the first quarter of 2023.

Share-based payment transactions

The fair value of the employee stock options are measured based on the Black-Scholes valuation model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility adjusted a period equal to the expected life), 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 Marathon Warrants and deferred stock units liability is recognized at fair value and considered Level 3 in the fair value hierarchy for financial instruments. The fair value is determined using the quoted price of the common shares of the Company.

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

13. Operating segments

The Company has a single operating segment. Over 98% of the Company's revenues are generated from one customer, RxCrossroads, which is domiciled in the United States.

		2023		2022
RxCrossroads	$	19,645	$	18,099
Others		263		458
	$	19,908	$	18,557

All of the Company's non-current assets are located in Canada, the United States and Ireland. Of the Company's non-current assets of $18,304, $18,209 as at February 28, 2023, are located in Canada, $62 are located in the United States and $33 are located in Ireland.