Financial Report

July 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Discussion and Analysis ("MD&A") for Valeo Pharma Inc. (the "Corporation" or "Valeo") is the responsibility of management and has been reviewed and approved by the Corporation's Board of Directors. This discussion and analysis for the three-month and nine-month periods ending July 31, 2019 was prepared by management from information available as at September 24, 2019, should be read in conjunction with the unaudited consolidated financial statements and notes thereto for the quarter ended July 31, 2019 which have been prepared in accordance with *International Financial Reporting Standards*. Unless otherwise noted, all amounts are presented in thousands of Canadian dollars.

Cautionary note regarding forward-looking statements

This MD&A may contain some forward-looking information as defined under applicable Canadian securities laws. Forward looking information can generally be identified using forward-looking terminology such as "may", "anticipate", "expect", "intend", "estimate", "continue" or similar terminology. Forward looking information is subject to various known and unknown risks and uncertainties, many of which are beyond the ability of the Corporation to control or predict, that may cause the Corporation's actual results or performance to be materially different from actual results and are developed based on assumptions about such risks and other factors set out herein.

Non-IFRS Financial Measures

This MD&A refers to certain non-IFRS measures. Management uses these non-IFRS financial measures for purposes of comparison to prior periods and development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of ongoing operations and in analyzing our business performance and trends. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies.

Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use a non-IFRS measure, "EBITDA", and "Adjusted Gross Margins", to provide supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. "EBITDA" and "Adjusted Gross Margins" are defined below:

Glossary of terms

Abbreviations/Terms	**Calendar & Financial**
Adjusted Gross Margin	Gross Margin plus costs reimbursed and other income paid by our partners, as a % of Revenues.
COGS	Cost of Product sold
EBITDA (L)	Net income (loss) before (i) provision for (recovery of) income taxes; (ii) interest (income) expense and other financing costs; (iii) depreciation; and (iv) amortization of intangible assets
G&A	General and Administrative
S&M	Sales and Marketing Expenses
SBC	Share-Based Compensation
FY-18	Fiscal Year 2018
FY-19	Fiscal Year 2019
FY-20	Fiscal Year 2020
Q3-19	Third quarter 2019
Q4-19	Fourth quarter 2019
Q3-18	Third quarter 2018
YTD	Year to date
Abbreviations/Terms	**Corporate & Operations**
Biosimilar	Biologic drug that is highly similar to a biologic drug already approved for sale.
DIN	Drug Identification Number
HC	Health Canada
FDA	US Food and Drug Administration
LMWH	Low Molecular Weight Heparin
NDS	New Drug Submission with Health Canada
VPI	Wholly owned subsidiary of Valeo focused on the commercialization of generic products

Overview of the Business and Corporate Strategy

The Corporation is a specialty pharmaceutical company which sources, acquires or in-licenses brand and generic products for sale in Canada and the United States. The Corporation has two wholly-owned subsidiaries. VPI Pharmaceuticals Inc., located within the Corporation's premises in Kirkland, Québec, which specializes in the development and commercialization of generic products and Valeo Pharma Corp. located in the United States, which is not active at the present time.

Valeo's business strategy is to become a leading Canadian healthcare company focused on the commercialization of innovative products that improve patient lives and support healthcare providers. The Corporation operates in two distinct business segments; branded prescription products and niche hospital injectable products. Such segments have been selected in order to leverage the Corporation's expertise and create operational synergies. Therapeutic fields are selected based on market potential (size and growth prospects), competitive landscape, and resource requirements needed to reach the target audience and execute our commercialization strategy.

For our branded prescription product segment, Valeo's current and future product pipeline will include innovative products, with a focus on neurology, oncology, women's health and hospital specialty products. For our second business segment of non-branded products, the Corporation focuses mainly on licensing or acquiring injectable products used in the hospital setting. On a selective basis, the Corporation may also acquire Canadian rights to non-hospital-based generics.

Valeo's business model consists of acquiring the Canadian rights to regulatory approved or late-development stage products, either through acquisitions, long-term in-licensing or distribution agreements with pharmaceutical companies that do not have a presence in Canada and providing all of the services required to register and commercialize their pharmaceutical products in Canada. Preferences are for products that are already approved in other territories such as the United States, Europe, or Japan. Some of these products may require up-front, regulatory and or commercial stage milestone payments, as well as approval from *Health Canada* prior to commercialization.

The Corporation also maintains a dedicated warehousing space in Kirkland, Quebec, to handle all the inventory requirements for Canada. Valeo's 20,000 square foot facility includes 14,000 square feet of storage space, three licensed narcotics vaults, the capability to handle cold chain requirements, and shipping needs. There is ample space in our warehouse to facilitate the addition of several new products to our growing Canadian portfolio.

Valeo also operates a sophisticated SAP enterprise resource planning system and possesses the in-house expertise to handle all activities associated with regulatory, quality control, sales, marketing, inventory management, shipping and pharmacovigilance. The ability to handle such a broad range of activities has been a key factor for our successful in-licensing activities and acquisition of third-party product rights for Canada.

As at the end of Q3-19, Valeo Pharma's product portfolio included:

Commercial Stage

Product	Indication	Partner	Regulatory, Commercial Status, and other important information
Onstryv (License)	Idiopathic Parkinson's disease as an add-on for people taking a stable dose of Levodopa (L-dopa) alone or in combination with other drugs, to help with "off" episodes when L-dopa is no longer effective	Zambon S.p.A. ("Zambon"),	The submission for Safinamide has been approved by Health Canada on January 10th, 2019. Commercialization of Onstryv has commenced during Q3-19 and is expected to reach peak sales within 3-5 years post launch.
M-Eslon (Distribution Agreement)	Extended release morphine sulphate used for pain management.	Ethypharm Inc. ("Ethypharm")	Agency agreement signed in August 2015 with sale of product recorded on a net basis. The contract was amended at the start of Q3-18 with Valeo assuming more commercial and quality control responsibilities and consequently revenues are now accounted for on a gross basis.
Ondansetron ODT (License)	Prevention of nausea and vomiting caused by cancer chemotherapy	Undisclosed	The Corporation has licensed the marketing authorization for Canada. Ondansetron ODT is now commercially available.
Benztropine (Distribution Agreement)	Anticholinergic agent used for the treatment of Parkinson's disease	Undisclosed	Approved by Health Canada, on March 21, 2019. The product has been launched commercially in September 2019.
Synacthen Depot (Distribution Agreement)	17 approved indications including several in neurology	Atnahs Pharma ("Atnahs")	There is a global supply shortage on this product and Canadian sales have been halted at the end of the first quarter and should resume during 2020.
Ethacrynate Sodium	Loop diuretic used to treat high blood pressure and associated swelling	Owned by Valeo worldwide except for Italy	**Canada** - Valeo initiated commercialization of the product in Q3-18.

Pre-launch / Regulatory Stage

Product	Indication	Partner	Regulatory, Commercial Status, and other important information
Redesca (Distribution Agreement)	Blood thinner	Undisclosed	During Q3-19, the Corporation acquired the Canadian rights to a low molecular weight heparin biosimilar to be commercialized as Redesca in Canada. The product is an injectable anticoagulant drug used primarily to treat and prevent deep vein thrombosis and pulmonary embolism. The Canadian market for LMWH's is greater than $200M on an annual basis. Marketing approval of Redesca is expected before the end of FY-20.
Ethacrynate Sodium	Loop diuretic used to treat high blood pressure and associated swelling	Owned by Valeo worldwide except for Italy	**United States** - The Corporation has entered into a partnership with Princeton Biopharma, LLC., a US based life science company, to commercialize the product. Valeo has filed a registration dossier with the FDA in order to obtain marketing approval which is expected in the first part of calendar 2020.
Utrogestan (Distribution Agreement)	micronized progesterone indicated for luteal phase support during in vitro fertilization cycles	*Besins Healthcare*	The product has received HC approval and Valeo expects to start commercializing Utrogestan in the first half of calendar 2020.
Hospital Products (5) (2 Licenses)	Anti-fungal, Anti-infectives, Pain management and others	Two Undisclosed partners	The Corporation has acquired the Canadian rights to five additional hospital products not yet approved in Canada. Regulatory filings will take place over the coming year with marketing approval to follow within 9-15 months.

Valeo continues to search for innovative products within its targeted areas of focus and maintains active business development activities to achieve this goal. Our experienced management team has a long and proven track record of successfully sourcing, developing and commercializing drugs in a variety of therapeutic areas at all stages of their life cycle in Canada.

The regulatory environment is such that the average timeline from commencing the registration process up to receiving marketing approval ranges from 12 to18 months. Valeo currently possesses all the required expertise to manage all aspects relative to the filing, registration, as well as preparing for successful product launches of the products currently in its pipeline. Additional therapeutically focused personnel in marketing and sales will be added as current and future in-licensed products approach the end of their respective approval process.

Third Quarter 2019 Corporate Highlights

- The Corporation announced the Canadian launch of Onstryv® (safinamide tablets) for the treatment of patients suffering from Parkinson's Disease. The Corporation has the exclusive rights to commercialize Onstryv® in Canada under a license agreement signed with Zambon S.p.A. The Corporation previously announced the approval of Onstryv® by Health Canada, January 15, 2019, as an add-on therapy to a regimen that includes levodopa for the treatment of the signs and symptoms of idiopathic Parkinson's Disease in patients experiencing "off" episodes. In anticipation for the launch of Onstryv, the Corporation completed the hiring of five (5) new sales representatives in June in order to have field representation in all key Canadian provinces.

- The Corporation signed a licensing agreement with an International pharmaceutical manufacturer whereby the Corporation has been granted the exclusive right to register, distribute and market a LMWH biosimilar in Canada. The LMWH, to be marketed as Redesca, is an injectable anticoagulant drug used primarily to treat and prevent deep vein thrombosis and pulmonary embolism. Total Canadian sales of LMWH products were in excess of $200M in 2018 and there are currently no LMWH biosimilars which have received Health Canada approval. Marketing approval of Redesca is expected before the end of FY-20.

- The Corporation announced the closing of its marketed public offering (the "Offering") of units (the "Units") at a price of $0.50 per Unit (the "Offering Price") for aggregate gross proceeds of $3.1M. Each Unit consisted of one class A share (a "Share") and one Share purchase warrant (a "Warrant"). Each Warrant is exercisable into one Share (a "Warrant Share") at the price of $0.60 per Warrant Share for a period of 36 months from Closing. If, at any time prior to the expiry date of the Warrants, the volume weighted average trading price of the Shares on the Canadian Securities Exchange ("CSE") equals or exceeds $1.10 for 20 consecutive trading days, the Company may, within 15 days of the occurrence of such event, deliver a notice to the holders of Warrants accelerating the expiry date of the Warrants to the date that is 30 days following the date of such notice (the "Accelerated Exercise Period"). Any unexercised Warrants shall automatically expire at the end of the Accelerated Exercise Period. A total of 8,189,257 Warrants were issued and will expire on July 25, 2022. Following completion of the Offering, the Warrants commenced trading on the CSE under the symbol VPH.WT.

  Concurrently with closing of the Offering, certain "related parties" to the Corporation converted an aggregate of $982 in outstanding loans and accrued interest thereon into Units at a price equal to the Offering Price (the "Debt Conversion").

  The net proceeds raised under the Offering will be used for the purchase of inventory, fund product milestones and acquisitions, product launch expenses, new products filing fees, general corporate and working capital requirements in support of the first new oral treatment for Parkinson's disease since 2006 – ONSTRYV®.

Statement of Compliance

The financial statements included in this MD&A, for the nine months ending July 31, 2019, have been prepared in accordance with *International Financial Reporting Standards* as issued by the *International Accounting Standards Board ("IASB")* as well as with those standards and interpretations as issued by the *International Financial Reporting Interpretations Committee ("IFRIC")* issued and effective or issued and early adopted as at the time of preparing these statements.

Use of Estimates and Judgements

Reference should be made to the Corporation's annual consolidated financial statements, *note 3*, for an extended description of the information concerning the Corporation's significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses.

Recently adopted accounting policies

IFRS 9 Financial Instruments

The Corporation has adopted IFRS 9 Financial Instruments ("IFRS 9") effective November 1, 2018 on a modified retrospective basis, in accordance with the transitional provisions of IFRS 9. As such, comparative figures have not been restated. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments and includes a new model for hedge accounting aligning the accounting treatment with risk management activities. As detailed below, the Corporation has changed its accounting policy for financial instruments retrospectively, except where described below.

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets, the Corporation has classified and measured its financial assets as described below: Cash and cash equivalents measured at fair value through profit or loss as with under International Accounting Standard 39 - Financial Instruments: Recognition and Measurement ("IAS 39") and continue to be measured as such under IFRS 9. The adoption of IFRS 9 did not result in a change in the carrying values of any of the Corporations financial assets on the transition date.

The following table presents the classification impacts on the financial assets and liabilities upon the adoption of IFRS 9. There was no significant impact with regards to the measurement of the financial assets and liabilities.

Assets / Liabilities	Classification under IAS 39	Classification under IFRS 9
Cash	Fair value through profit or loss	Fair value through profit or loss
Trade receivables	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Bank overdraft	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Trade payables	Other liabilities	Amortized cost
Other payables and accrued liabilities	Other liabilities	Amortized cost
Loans	Other liabilities	Amortized cost
Long term loans and convertible debentures	Other liabilities	Amortized cost

Financial liabilities are recognized initially at fair value, and in the case of financial liabilities, not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. Accounts payable and accrued liabilities, and long-term debt are classified as financial liabilities to be subsequently measured at amortized cost. The adoption of IFRS 9 did not result in a change in the carrying values of any of the Corporation's financial liabilities on the transition date.

IFRS 9 requires a forward-looking expected credit loss impairment ("ECL") model as opposed to an incurred credit loss model under IAS 39. The Corporation's financial assets include trade receivables and other receivables, and the Corporation will opt to use the general approach for measuring the loss allowance at an amount equal to lifetime ECL. Under the general approach, at each reporting date, an entity recognizes a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. The changes in the loss allowance balance are

recognized in profit or loss as an impairment gain or loss. The adoption of the ECL model does not have an impact on the Corporation's financial statements and did not result in a transitional adjustment.

The Corporation's financial assets and liabilities, or financial instruments, include cash, trade and other receivables, bank overdraft and indebtedness, accounts payable and accrued liabilities and short-term debt, and long-term debt financial instruments. All financial instruments are recorded at fair value at recognition. Subsequent to initial recognition, financial instruments classified as accounts payable and accrued liabilities, and long-term debt are measured at amortized cost using the effective interest method. Other financial assets and liabilities are recorded at fair value subsequent to initial recognition.

Recently adopted accounting policies – *cont'd*

The following summarizes the Corporation's classification and measurement of financial assets and liabilities as at:

	Measurement	**July 31, 2019** **$**	October 31, 2018 $
Financial assets:			
Cash	Fair value through profit or loss	**-**	11
Trade receivables	Amortized cost	**1,508**	731
Other receivables	Amortized cost	**118**	153
Financial liabilities:			
Bank overdraft	Amortized cost	**77**	-
Bank indebtedness	Amortized cost	**-**	850
Trade payables	Amortized cost	**2,731**	1,524
Other payables and accrued liabilities	Amortized cost	**1,615**	530
Loans	Amortized cost	**-**	96
Long term loans	Amortized cost	**-**	953
Convertible debentures	Amortized cost	**-**	507

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or financial liabilities, other than financial assets and financial liabilities measured at fair value through profit and loss ("FVTPL"), are accounted for as part of the carrying amount of the respective asset or liability at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Transaction costs on financial assets and financial liabilities measured at FVTPL are expensed in the period incurred. Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred. All derivative instruments, including embedded derivatives, are recorded in the financial statements at fair value.

Future Accounting Pronouncements

Certain new standards, interpretations and amendments to existing standards issued by the *IASB* or *IFRIC* that are not yet effective up to the date of issuance of the Corporation's consolidated financial statements are listed below.

- *IFRS 16 – Leases* – effective for annual periods beginning on or after January 1, 2019.

The Corporation is currently assessing the impact the adoption of *IFRS 16* will have on the consolidated financial statements. The Corporation intends to adopt these standards as they become effective.

2019 Financial Overview

3rd Quarter ended July 31, 2019

- Total revenues for Q3-19 were $2,601 as compared to $2,111 in Q3-18 representing a 23% increase.
- Gross Profit for Q3-19 was $912 as compared to $434 for Q3-18, representing a 110% increase.
- Adjusted Gross profit for Q3-19 was $951 as compared to $494 for Q3-18, representing a 93% increase.
- Net loss after taxes was $262 in Q3-19 compared to $325 in Q3-18 representing a 19% reduction after taking into consideration a $111 charge for share-based compensation costs compared to $2 last year.

Nine-month period ended July 31, 2019

- Total revenues were $5,406 for YTD-19 as compared to $2,632 last year, representing a 105% increase.
- Gross Profit was $1,345 for YTD-19 as compared to $687 last year, representing a 96% increase.
- Adjusted Gross profit for YTD-19 was $1,484 as compared to $867 for YTD-18, representing a 71% increase.
- Net loss after taxes was $2,220 for YTD-19 compared to $1,508 last year.

Selected Quarterly Financial Data

The following table sets forth financial information relating to the Corporation for the three- and nine-month periods indicated and should be read in conjunction with the July 31, 2019 unaudited consolidated financial statements.

Consolidated Statements of Loss	**Three months ending July 31,**			**Nine months ending July 31,**		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
	$	$	%	**$**	$	%
Revenues	**2,601**	2,111	*23%*	**5,406**	2,632	*105%*
Cost of Sales	**1,689**	1,677	*1%*	**4,061**	1,945	*109%*
Gross Profit	**912**	434	*110%*	**1,345**	687	*96%*
Expenses						
Sales & Marketing	**447**	140	*219%*	**1,301**	399	*226%*
General and administrative	**607**	590	*3%*	**2,032**	1,772	*15%*
Share-based compensation	**111**	2	*5450%*	**228**	6	*3700%*
Financial	**73**	97	*-25%*	**206**	220	*-6%*
Other income	**(64)**	(65)	*-2%*	**(202)**	(89)	*127%*
Impairment on balance of sale	**-**	-	-	**-**	150	*-100%*
	1,174	764	*54%*	**3,565**	2,158	*65%*
Loss before income taxes	**262**	330	*-21%*	**2,220**	1,471	*51%*
Provision for (recovery) of income taxes	**-**	(5)	*-100%*	**-**	37	*-100%*
Net loss for the year	**262**	325	*-19%*	**2,220**	1,508	*47%*
Other comprehensive loss						
Exchange differences on translating foreign operations	**-**	2	*-100%*	**-**	2	*-100%*
Defined benefit plan, net actuarial loss	**-**	-	-	**70**	(6)	*-1267%*
Total comprehensive loss	**262**	327	*20%*	**2,290**	1,504	*52%*
Loss per share						
Basic and diluted	**0.01**	0.01	*-43%*	**0.05**	0.05	*5%*
Weighted average number of shares outstanding	**49,004,248**	34,768,233	*41%*	**47,205,699**	32,535,082	*45%*

The following table provides a reconciliation of net loss to EBITDA for Q3-19 and YTD-19 as compared to previous year periods.

EBITDA Reconciliation	**Q3-19**	**Q3-18**	**Change**	**YTD-19**	**YTD-18**	**Change**
	$	$	%	$	*$*	*%*
Net loss for the quarter	**262**	325	-19%	**2,220**	*1,508*	*47%*
Add (deduct)						
Provision for income (recovery of) income taxes	**-**	(42)	-100%	**-**	*(42)*	*-100%*
Interest expense	**(10)**	(57)	-82%	**(62)**	*(113)*	*-45%*
Depreciation	**(10)**	(10)	0%	**(42)**	*(19)*	*121%*
Amortization of intangible assets	**(3)**	-	+100%	**(9)**	-	*+100%*
(EBITDA(L))	**239**	216	11%	**2,107**	1,334	58%

Selected Quarterly Financial Data – *cont'd*

Consolidated Balance Sheet Highlights

As at,	**July 31, 2019**	October 31, 2018
	$	$
(Bank overdraft) / Cash	**(77)**	11
Current assets	**2,126**	1,044
Total assets	**6,164**	3,385
Current liabilities	**4,501**	3,052
Long-term loans, debentures and pension obligations	**301**	1,701
Share Capital	**8,755**	4,659
Contributed Surplus	**495**	267
Deficit	**(8,321)**	(6,101)

Revenue Analysis

	Q3-19	Q3-18	*Change*	**YTD-19**	YTD-18	*Change*
	$	$	*%*	**$**	*$*	*%*
Net Product revenue	**2,601**	2,111	*23%*	**5,406**	2,399	*125%*
Agency revenue	**-**	-	-	**-**	233	*-100%*
Total Revenues	**2,601**	2,111	*23%*	**5,406**	2,632	*105%*
COGS	**1,689**	1,677	*1%*	**4,061**	1,945	*109%*
Gross Profit	**912**	434	*110%*	**1,345**	687	*96%*
Gross Profit %	**35.1%**	20.6%	*71%*	**24.9%**	26.1%	*-5%*
Additional Information						
Expenses Reimbursed by partners	**39**	60	*-35%*	**139**	180	*-23%*
Adjusted Gross Profit	**951**	494	*93%*	**1,484**	867	*71%*
Adjusted Gross Profit margins %	**36.6%**	23.4%	*56%*	**27.5%**	32.9%	*-17%*

Total YTD-19 revenues reached $5,406 compared to $2,632 in 2018 representing a 105% increase. The significant increase in revenues can be explained as follows:

Sales of New Products

- The most important factor impacting our Revenues for Q3-19 has been the successful launch of Onstryv. The product is now available for sale in pharmacies across Canada. Following a strong start, we expect Onstryv sales to grow based on prescription growth. Reimbursement is key to ensure maximum patient access to this product. Onstryv is currently covered by several private plans, additional private plans as well as provincial listings and reimbursements should follow over the coming quarters.
- Sales of Ethacrynate Sodium have improved since we launched the product in Q3-18. Sales of this product results mainly from tenders with group purchasing organizations ("GPO") as well as non-recurrent sales when competitors are out of stock. During the current year, sales of Ethacrynate Sodium have increased and although remaining nominal, our 85% gross profit margin for this product has impacted positively our results for the quarter and YTD.

Changes to the distribution contract with Ethypharm on May 1, 2018

- Prior to May 1, 2018, the Corporation was acting as an agent under the Ethypharm distribution contract, therefore, revenues relating to products sold under this arrangement were recorded on a net basis in the consolidated statements of loss, excluding any cost of sales. Effective May 1, 2018, the Ethypharm contract was amended and the Corporation took over more responsibilities in relation to the sales of M-Eslon which led to Valeo acting as the principal in the sales of these products. Following this amendment, revenues from the sales of M-Eslon are now accounted for on a gross basis in the same manner as the Corporation's other products. The gross margin on these sales is at a fixed percentage of gross sales. Following the change in the Ethypharm contract, product revenues have increased significantly while agency revenues are no longer recorded.

  For the YTD results, product revenues for the Ethypharm products represent one quarter in 2018, as compared to three quarters in 2019. Agency revenues were collected for two quarters in 2018, and nil in 2019.

Revenue Analysis – *cont'd*

Other factors impacting our revenues

- *Synacthen*

Prior to the end of Q1-19, sales of Synacthen Depot were halted due to a global supply shortage of the product. All prior sales of this product in Canada had an expiry date of February 28, 2019. Consequently, our clients returned all unsold and unused units to Valeo during the first two quarters of 2019 without Valeo being able to replace these units with new supplies. Under our agreement with Atnahs, the cost of all product returned are billed back at cost. However due the Synacthen Depot product returns, Valeo's revenues for Q1-19 and Q2-19 have been negatively impacted by $44 and $380 respectively for a total of $424 worth of product returns. There has been no product returned for Synacthen Depot in Q3-19. As a result of the product returns being recorded as a reduction of sales, our YTD-19 sales of Synacthen Depot are marginally below the record levels of last year. The product has no alternative in Canada and Valeo is the only supplier of Synacthen Depot in the country. When sales of Synacthen Depot resume, the Corporation expects sales to return to previous levels. The global shortage of Synacthen Depot should be resolved in 2020.

- *New Products*

Following the launch of Onstryv, we have commercialized Ondansetron and Benztropine in Q4-19. With three products launched in 2019, we now have a total of six products contributing to our product revenues compared to three products a year ago.

Adjusted gross profit margins

Adjusted gross profit margins have increased significantly from 23.4% to 36.6% from Q3-18 to Q3-19 (see "Revenue Analysis") as a result of the launch of two new products (Onstryv in 2019, and Ethacrynate Sodium in 2018). Onstryv was successfully launched during Q3-19 with favorable gross margins (70%) having a significant impact on our overall adjusted gross margins, which increased between Q3-18 and Q3-19.

For the YTD results, the combination of the Onstryv launch and changes to the Ethypharm contract contributed to a strong increase of our Adjusted gross profit from $867 to $1,484 between YTD-18 and YTD-19, representing a 71% increase. As explained above, our Adjusted gross profit takes into account selling cost reimbursed by our partners for sales of their products. These reimbursements are applied as a reduction of G&A expenses and /or included in Other Income. Adjusted Gross Margin is a more accurate indication of the true Gross Margin we are receiving from the sale of our existing products.

We also have a several products in the process of registration/DIN transfers and are expecting to launch many new products in the coming years. Our gross profit margins are expected to improve significantly as the mix of our product revenues evolves and incorporate sales of products with respective margins ranging from 40% to 85%.

Sales and Marketing Expenses

In order to support the launch of Onstryv, we have added six field sales professionals in Q3-19 to detail the product across all major markets. As a result of these hires, as well as other expenses required to support our launch initiatives, Sales and Marketing expenses have increased significantly between the two reported periods. These expenses in Q3-19 were $447 compared to $140 in the corresponding quarter in 2018 representing a 219% increase and $1,301 compared to $399 for the nine-month period representing a 226% increase.

General and Administrative Expenses

Despite an increase in our investor relations spending, our G&A expenses have remained stable between the two reported periods. SG&A expenses in Q3-19 were $607 compared to $590 in the corresponding quarter in 2018 representing a 3% increase and $2,032 compared to $1,772 for the nine-month period representing a 15% increase.

Share-Based Compensation (SBC)

SBC represents the charge for share options granted to officers, board members and/or consultants of the Corporation. This cost is non-cash and can be deducted from the other operating expenses when assessing the true operating performance of the Corporation. In Q3-19, SBC totaled $111 due to options granted to new sales staff, new Board members and consultants, as compared to $2 last year. For the YTD results, SBC represents $228 compared to $6 for YTD-18.

Financial Expenses

For YTD-19, financial expenses were $206 compared to $220 for YTD-18. The decrease was mainly due to repayments and the conversion of debt into equity which occurred during the YTD period.

Other Income

Other income for Q3-19 totalled $64 as compared to $65 in Q3-18 and $202 compared to $89 for the YTD-19 and YTD-18 periods representing a 127% increase. Other Income increased over 2018 as the Corporation's revenues from third party contracts increased significantly. Considering the quality and the broad range of development, regulatory and quality control/assurance expertise of its staff, Valeo remains opportunistic in offering back office administrative and third-party consulting support to virtual companies that are sub-leasing part of the Corporation's premises.

Provision for Income Taxes

The Corporation has accumulated non-capital losses of $3,962 for income tax purposes in Canada and US$93 for income tax purposes in the United States, which are available to be applied against future taxable income and expire in the years 2029-2038. The income tax benefit of the US losses has not been recognized in the financial statements as the subsidiary is not active at the present time.

Summary of Quarterly Results

	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18	**Q2-18**	**Q1-18**	**Q4-17**
Net Product Revenue (Note 1)	**2,601**	1,010	1,795	1,750	2,111	167	121	160
Agency revenue	**-**	-	-	-	-	109	125	111
Cost of goods sold	**1,689**	863	1,509	1,604	1,677	160	108	142
Gross Profit	**912**	147	286	146	434	116	138	129
S&M (Note 2)	**447**	384	470	217	140	147	112	119
G&A (Note 2)	**607**	775	709	797	590	610	572	610
Share-Based Compensation	**111**	84	33	71	2	2	2	61
Financing expense	**73**	61	72	46	97	57	66	53
Other (income) expense	**(64)**	(73)	(65)	(60)	(65)	(22)	(2)	49
Impairment of Investment	**-**	-	-	5	-	-	-	-
(Recovery) impairment on balance of sale	**-**	-	-	-	-	(150)	-	856
Net loss before taxes	**(262)**	(1,084)	(933)	(930)	(330)	(529)	(612)	(1,619)
Recovery of (provision for) income tax	**-**	-	-	-	5	(42)	-	395
Net loss for the quarter	**(262)**	(1,084)	(933)	(930)	(325)	(572)	(612)	(1,224)

Notes

1. Prior to Q3-18, revenue from the Ethypharm agreement (see "Revenue Analysis") was recognized net of cost of goods sold. At the start of Q3-18, the Ethypharm contract was amended, and revenues from that contract are now recognized on a gross basis.
2. The Corporation has determined that the methodology used to calculate the carrying value of its intangibles did not capture all relevant costs for Q1-19 and Q2-19. Certain costs, both internal and external, had not been capitalized and the Corporation has determined that adjustments were required. Adjustments of $121 and $173 were made to S&M and G&M (previously reported together as SG&A) for the Q1-19 and Q2-19 periods respectively with equivalent amounts representing additions to intangibles during such periods. Amortization on such additions was deemed not material based on a 10-year period that commenced in July 2019.

Sales & Marketing

Since the start of 2019, the Corporation has increased its Sales and Marketing activities to ensure the successful launch of new products including six new hires dedicated to the commercialization of Onstryv. Sales and Marketing expenses will continue to vary and will reflect recurrent staff costs and promotional expenses as well as non-recurrent activities specific to product launches.

General and Administrative

G&A expenses will vary from quarter to quarter depending on business and investor relations activities. Over the YTD period, we have seen our G&A expenses fluctuate but continue to decrease as a percentage of total revenues. Our G&A, as a percentage of revenues, has decreased from 27.9% in Q3-18 to 23.3% in Q3-19. Despite the projected growth in our revenues, we will continue to look for ways to achieve more results while maintaining control over G&A and other spending.

Cash Flows

Sources and Uses of Cash	YTD-19 $	YTD-18 $
Operating activities:		
Net loss from operations	**(2,220)**	(1,508)
Other Items not affecting cash	**554**	102
Changes in non-cash working capital	**(459)**	418
Cash used in operations	**(2,125)**	(988)
Investing activities:		
Cash used by investing activities	**(714)**	54
Financing activities:		
Cash provided by financing activities	**2,827**	950
Foreign exchange loss (gain) on cash	**1**	(3)
Increase (decrease) in cash	**(11)**	13
Cash, beginning of period	**11**	3
Cash, end of period	**-**	16

(a) Operating activities

Cash used in operations represents the cash flows from operations, excluding income and expenses not affecting cash. Cash used in operations for the period, excluding the change in non-cash working capital, was $1,666 compared to $1,406 in the prior year period. Major items and non-cash included in operations in 2019 were: (i) $2,220 net loss from operations (up 47% from 2018), (ii) $228 of share-based compensation compared to $6 for 2018 and (iii) $78 of provision for sales returns versus $25 in 2018.

Changes in non-cash working capital components used $459 of cash in the period compared to providing $418 in 2018.

(b) Investing activities

Cash used by investing activities in the period was $714 as compared to cash provided of $54 in 2018. In the first 9 months of 2019, $697 was invested to acquire intangible assets. During the first 9 months of 2019, Valeo has carried many initiatives aimed at increasing the value of its licensed product portfolio, including 1) activities related to several product filings and interaction with HC, 2) in-licensing activities, as well as 3) activities for securing the listing and reimbursement of its approved products. We expect these activities to vary from quarter to quarter but to continue as they are an integral part of our business operations.

(c) Financing activities

During the period, financing activities provided cash of $2,827 compared to $950 in 2018. In the first nine months of 2019, a total of $900 was raised by issuing convertible debentures and $3,112 through the issuance of Valeo share units. Cash outflows are related to debt and bank overdraft repayments and to share and unit issue costs.

Liquidity and Capital Resources

As at,	July 31, 2019 $	October 31, 2018 $
(Bank overdraft) / Cash	**(77)**	11
Working Capital (i)	**(2,375)**	(2,008)
Total assets	**6,164**	3,385

(i) Working capital is a measure of current assets less current liabilities

In the period completed on July 31, 2019, the Corporation's revenue from its sales and distribution activities did not cover its operating costs. This deficiency was funded by the issuance of convertible debt and the issuance of units. There was a working capital deficiency of $2,375 as at July 31, 2019 compared to a working capital deficiency of $2,008 at the end of fiscal 2018. The $400 increase includes an increase in accounts receivable of $800 and inventory of $300 offset by net debt conversion/repayment of $900 and an increase in accounts payable of $2,292.

Liquidity and Capital Resources – *cont'd*

Entering into in-licensing agreements with pharmaceutical companies necessitates the payment of up-front amounts, milestone payments as well as all the costs normally associated with preparing for the launch of a pharmaceutical product. Valeo intends to fund these in-licensing agreements with a combination of equity provided by current and new shareholders, as well as debt.

As funding requirements vary widely depending upon the nature and potential of the product and the in-licensing agreement, the Corporation intends to seek funding on a project by project basis. Funding requirements for products under discussion vary from $1 million to $5 million. The Corporation anticipates that commencement of additional product distribution agreements and other revenue contracts will provide additional cash flow that can contribute to working capital requirements.

The Corporation's prior initiatives relating to product acquisition rights and regulatory filings should lead to a series of product launches over the coming quarters. In addition to the launch of Onstryv, the Corporation has commercialized Ondansetron ODT and Benztropine in September 2019.

The combination of these new product launches will materially impact both the Corporation's product revenues as well as the Corporation's gross margin contribution, and consequently reduce the need for further financings to fund our operations.

Transactions with Related Parties

The accounts of the Corporation include the following related party transactions not disclosed elsewhere in the financial statements:

	Three months ending July 31,		Nine months ending July 31,	
	2019	2018	**2019**	2018
	$	$	**$**	$
Key management salary and benefits	**224**	243	**622**	737
Directors and employee stock option compensation	**111**	2	**228**	6
Consulting fee paid to a company controlled by an officer	**29**	-	**135**	-

Off balance sheet arrangements

The Corporation does not have any off-balance sheet arrangements.

Risk Management

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow and fair value interest rate risk); credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on the Corporation's financial performance. The Corporation does not use derivative financial instruments to hedge these risks.

(a) Market risk

(i) Currency risk

The Corporation is exposed to financial risks that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. The U.S. subsidiary is currently not operational. The Corporation does not hold financial derivatives to manage the fluctuation of these risks.

(ii) Cash flow and fair value interest rate risk

The Corporation is exposed to fluctuation in its future cash flows arising from changes in interest rates through its variable rate financial assets and liabilities. Convertible loans and long-term debt negotiated at a fixed rate expose the Corporation to fair value interest rate risk. In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which includes marketability risk, through its investments in financial instruments which are carried at fair value. The Corporation does not believe that the results of operations nor cash flows would be materially affected to any significant degree by a sudden change in market interest rates relative to interest rates on its financial assets and liabilities.

(b) Credit Risk

The Corporation considers its maximum credit risk to be based on the following financial assets: cash, and trade and other receivables. Credit risk arises from cash and deposits with banks. The Corporation reduces this risk by dealing with creditworthy financial institutions. Credit risk also results from the possibility that a loss may occur from the failure of another party to adhere to payment terms. To lower this risk, the Corporation's extension of credit is based on an evaluation of each customer's financial condition.

Risk Management - *cont'd*

Management reviews the aging of trade accounts receivable and other factors relating to the risk that customer accounts may not be paid in full and, when appropriate, reduces the carrying value to provide for possible loss. No loss has been charged to earnings in the current year. The Corporation sells its products through a small number of wholesalers and retail pharmacy chains in addition to hospitals, pharmacies and other groups.

(c) Liquidity Risk

Liquidity available via the Corporation's operating activities and credit facilities will provide the Corporation with a large portion of the funds needed to meet its short-term financial obligations that are due as of July 31, 2019.

(d) Specific Risks

The Corporation has insurance policies in place against risks relating to general commercial liability, product liability, loss of assets and business interruption risks. The Corporation reviews its insurance coverage on a regular basis as part of its risk management program and adjusts the coverage as appropriate.

Management of Capital

The Corporation manages its capital structure to meet the financial needs of the day-to-day operations. Over the YTD, the Corporation has funded its working capital requirements out of its internally-generated cash flows, the use of its credit facilities and the injection of capital by way of debentures and equity financing provided by related parties and/or new shareholders.

Going forward, the Corporation will continue to monitor the growth of its internally generated cash flows, and look to compensate any shortfall by securing new debt as well as look for opportunities to attract new capital. As at July 31, 2019 the Corporation is not subject to any externally imposed capital requirements.

Subsequent events

a) In August 2019, Valeo was informed by Mallinckrodt, that the global rights to Synacthen had been sold to Atnahs Pharma UK Limited ("Atnahs"), effective July 31, 2019. Consequent to this transaction Atnahs has assumed all obligations and responsibilities of the distribution agreement signed between Mallinckrodt and Valeo in September 2014.

b) During the month of September 2019, the Corporation began commercializing Ondansetron ODT, as well as Benztropine. Both products are available across all Canadian provinces via various retail pharmacy chains.

Interim Condensed Consolidated Financial Statements
(**Unaudited**)

Valeo Pharma Inc.

July 31, 2019

Valeo Pharma Inc.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)
In thousands of Canadian dollars

As at	*Notes*	**July 31, 2019**	October 31, 2018
ASSETS			
Current			
Cash		**-**	11
Trade and other receivables	*4*	**1,626**	885
Inventory		**356**	95
Prepaid expenses		**144**	53
Total current assets		**2,126**	1,044
Property and equipment		**302**	310
Intangible assets	*5*	**3,736**	1,984
Deferred share issue costs		**-**	47
Total assets		**6,164**	3,385
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current			
Bank overdraft		**77**	-
Operating loan	*6*	**-**	850
Trade accounts payables	*7*	**2,731**	1,524
Other accounts payable and accrued liabilities	*7*	**1,615**	530
Provision for product returns		**78**	52
Loans	*8*	**-**	96
Total current liabilities		**4,501**	**3,052**
Long-term loans		**-**	953
Convertible debentures	*8*	**-**	507
Defined benefit obligation		**301**	241
Total liabilities		**4,802**	**4,753**
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	*10*	**8,755**	4,659
Contributed surplus		**495**	267
Warrants		**696**	-
Deficit		**(8,321)**	(6,101)
Accumulated other comprehensive loss		**(263)**	(193)
Total shareholders' equity (deficit)		**1,362**	**(1,368)**
Total liabilities and shareholders' equity (deficit)		**6,164**	**3,385**

Related Party Transactions (note 16); Subsequent events (note 21)

These unaudited condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on September 24, 2019.

/s/"Steven Saviuk " , Director /s/" Richard Mackay" , Director

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

Valeo Pharma Inc.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

In thousands of Canadian dollars

For the nine-month period ended July 31, 2019 and 2018

		Three-months ended		Nine-months ended	
	Notes	**July 31 2019**	July 31 2018	**July 31 2019**	July 31 2018
Revenues	*12*	**2,601**	2,111	**5,406**	2,632
Cost of Goods Sold		**1,689**	1,677	**4,061**	1,945
Gross Profit		**912**	434	**1,345**	687
Expenses					
Sales and marketing	*13*	**447**	140	**1,301**	399
General and administrative	*14*	**607**	590	**2,032**	1,772
Share based compensation	*10*	**111**	2	**228**	6
Financial	*15*	**73**	97	**206**	220
Other income	*16*	**(64)**	(65)	**(202)**	(89)
Impairment on balance of sale		**-**	-	**-**	(150)
Total Expenses		**(1,174)**	(764)	**(3,565)**	(2,158)
Net loss before income taxes		**(262)**	(330)	**(2,220)**	(1,471)
Provision for income taxes					
Current		**-**	5	**-**	(37)
Net loss for the period		**(262)**	(325)	**(2,220)**	(1,508)
Other comprehensive loss					
Exchange differences on translating foreign operations		**-**	(2)	**-**	(2)
Defined benefit plan, net actuarial (loss) gain		**-**	-	**(70)**	6
Total comprehensive loss		**(262)**	(327)	**(2,290)**	(1,504)
Loss per share:					
Basic and diluted		**(0.00)**	(0.01)	**(0.05)**	(0.05)
Weighted average number of shares outstanding		**49,004,248**	34,768,233	**47,205,699**	32,535,082

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

Valeo Pharma Inc.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficit)
(Unaudited)

In thousands of Canadian dollars

For the nine-month period ended July 31, 2019 and 2018

	Notes	Share Capital				Accumulated OCI		
		Common Shares $	Warrants $	Deficit $	Contributed surplus $	Defined benefit plan $	Foreign exchange translation $	Total $
Balance as at October 31, 2017		413		(3,018)	189	(157)	(30)	(2,603)
Net loss		-	-	(1,508)	-	-	-	(1,508)
Other comprehensive loss (income)		-	-	-	-	6	(2)	4
Conversion of debentures to shares		2,853	-	-	-	-	-	2,853
Conversion of loans to shares		1,400	-	-	-	-	-	1,400
Share issue costs		(7)	-	-	-	-	-	(7)
Share based compensation		-	-	-	6	-	-	6
Redemption of X and X1 shares		-	-	(581)	-	-	-	(581)
Dividends paid		-	-	(65)	-	-	-	(65)
Balance as at July 31, 2018		4,659	-	(5,172)	195	151	(32)	(501)
Balance as at October 31, 2018		**4,659**	**-**	**(6,101)**	**267**	**(160)**	**(33)**	**(1,368)**
Net loss		**-**	-	**(2,220)**	**-**	**-**	**-**	**(2,220)**
Other comprehensive income		**-**	-	**-**	**-**	**(70)**	**-**	**(70)**
Share based compensation	*(10)*	**-**	-	**-**	**228**	**-**	**-**	**228**
Conversion of debentures to shares	*(10)*	**1,427**	-	**-**	**-**	**-**	**-**	**1,427**
Conversion of loans to shares		**815**	**167**	**-**	**-**	**-**	**-**	**982**
Issuance of units		**2,583**	**529**	**-**	**-**	**-**	**-**	**3,112**
Unit issue costs		**(729)**	**-**	**-**	**-**	**-**	**-**	**(729)**
Balance as at July 31, 2019		**8,755**	**696**	**(8,321)**	**495**	**(230)**	**(33)**	**1,362**

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

Valeo Pharma Inc.

Interim Condensed Consolidated Statements of Cash Flow
(Unaudited)
In thousands of Canadian dollars
For the nine-month period ended July 31, 2019 and 2018

	Notes	**2019**	2018
Operating activities:			
Net loss from operations		**(2,220)**	(1,508)
Add (deduct) items not affecting cash:			
Depreciation of property and equipment		**29**	29
Amortization of intangible assets	*5*	**22**	2
Provision for sales returns		**78**	25
Share based compensation		**228**	6
Deferred Share issue costs		**21**	-
Interest expense		**72**	150
Defined benefit pension expense		**5**	4
Provision for income taxes		**-**	37
Unrealized (gain) loss on foreign exchange		**102**	(1)
Recovery of balance of sale		**-**	(150)
Payment of interest on short term debt		**(3)**	-
Net change in non-cash operating working capital		**(459)**	418
Cash used by operations		**(2,125)**	(988)
Investing activities:			
Proceeds from balance of sale		**-**	351
Acquisition of property and equipment		**(17)**	(8)
Acquisition of intangible assets		**(697)**	(288)
Cash (used) provided by investing activities		**(714)**	55
Financing activities:			
Decrease in bank indebtedness		**(850)**	(480)
Increase in bank overdraft		**77**	-
Increase in loans from shareholders		**-**	962
Repayment of debt		**(48)**	-
Increase in debentures		**900**	501
Issuance of units		**3,112**	-
Payment of unit issue costs		**(300)**	-
Payment of deferred share costs		**(49)**	(14)
Payment of share issue costs		**-**	(7)
Funding of defined benefit plan		**(15)**	(13)
Cash provided by financing activities		**2,827**	949
Foreign exchange loss on cash		**1**	(3)
(Decrease) increase in cash		**(11)**	13
Cash, beginning of year		**11**	3
Cash, end of period		**-**	16

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

1. Presentation of Financial Statements

Description of the Business

Valeo Pharma Inc. (the "Corporation") is a pharmaceutical company that acquires and markets speciality products. Its head office, principal place of business and registered office is located at 16667 Hymus Blvd., Kirkland, Quebec, Canada. The Corporation's wholly owned subsidiary VPI Pharmaceuticals Inc. ("VPI") is located within the Corporation's premises, and Valeo Pharma Corp ("Valeo USA") is located in the United States (not active).

The Corporation is incorporated under the Canada Business Corporations Act and its shares and warrants are listed on the Canadian Stock Exchange ("CSE") under the symbol VPH and VPH.WT.

Statement of Compliance

These unaudited interim condensed consolidated financial statements of the Corporation have been prepared for the nine months ended July 31, 2019 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements have been prepared in accordance with those IFRS standards and interpretations of the International Financial Reporting Interpretations Committee issued and effective or issued and early adopted as at the time of preparing these statements. These unaudited interim condensed consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2018 as they follow the same accounting policies and methods of application.

These unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on September 24, 2019.

2. Summary of Significant Accounting Policies

a) Basis of consolidation

These unaudited condensed interim consolidated financial statements consolidate those accounts of the Corporation and its wholly owned subsidiaries (the "Group"). All subsidiaries have a quarterly reporting date of July 31. All transactions and balances between Group companies are eliminated upon consolidation, including unrealized gains and losses on transactions between Group companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Corporation. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

b) Basis of measurement

These unaudited interim condensed consolidated financial statements have been prepared on a going-concern basis, under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. This implies that the Corporation will continue realizing assets and discharging liabilities in the normal course of business for the foreseeable future. Should the going concern assumption not continue to be appropriate for the Corporation, further adjustments to carrying values of assets and liabilities may be required. On July 31, 2019, there was a consolidated working capital deficiency of $2,375 (October 31, 2018 – $2,008) and a consolidated loss of $2,220 for the nine months ended July 31, 2019 (consolidated loss of $1,508 for the nine months ended July 31, 2018).

Accordingly, the ability of the Corporation to realize the carrying value of its assets and continue operations as a going concern is dependent upon its ability to obtain additional financing as needed and ultimately on generating future profitable operations. Management anticipates that commercialization of new products and other revenue will provide operating revenue that could contribute to working capital requirements. There are no assurances that any of these initiatives will be successful. Factors within and outside the Corporation's control could have a significant bearing on its ability to obtain additional financing. These unaudited interim consolidated condensed financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should the Corporation be unable to continue as a going concern.

(All amounts in thousands of Canadian dollars)

2. Summary of Significant Accounting Policies – *cont'd*

c) Recently adopted accounting policies

IFRS 15 Revenue from Contracts with Customers

The Corporation has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") effective November 1, 2018. The objective of this new standard is to provide a single, comprehensive revenue recognition framework for all contracts with customers to improve comparability of financial statements of companies globally. This new standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. As a result of the application of this new standard, where a right of return exists, the Corporation records an asset and a refund liability when revenue is recorded.

IFRS 9 Financial Instruments

The Corporation has adopted IFRS 9 Financial Instruments ("IFRS 9") effective November 1, 2018. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments and includes a new model for hedge accounting aligning the accounting treatment with risk management activities. As detailed below, the Corporation has changed its accounting policy for financial instruments retrospectively, except where described below.

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business model under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets, the Corporation has classified and measured its financial assets as described below: Cash and cash equivalents measured at fair value through profit or loss ("FVTPL") as with under International Accounting Standard 39 - Financial Instruments: Recognition and Measurement ("IAS 39") and continue to be measured as such under IFRS 9. The adoption of IFRS 9 did not result in a change in the carrying values of any of the Corporation's financial assets on the transition date.

The following table presents the classification impacts on the financial assets and liabilities upon the adoption of IFRS 9. There was no significant impact with regards to the measurement of the financial assets and liabilities.

	Classification under IAS 39	**Classification under IFRS 9**
Cash	Fair value through profit or loss	Fair value through profit or loss
Trade receivables	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Bank overdraft	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Loans	Other liabilities	Amortized cost
Long term loans and convertible debentures	Other liabilities	Amortized cost

Financial liabilities are recognized initially at fair value, and in the case of financial liabilities, not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. Accounts payable and accrued liabilities, and long-term debt are classified as financial liabilities to be subsequently measured at amortized cost. The adoption of IFRS 9 did not result in a change in the carrying values of any of the Corporation's financial liabilities on the transition date.

IFRS 9 requires a forward-looking expected credit loss impairment ("ECL") model as opposed to an incurred credit loss model under IAS 39. The Corporation's financial assets include trade receivables and other receivables, and the Corporation opted to use the general approach for measuring the loss allowance at an amount equal to lifetime ECL. Under the general approach, at each reporting date, an entity recognizes a loss allowance based on either 12-month, ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. The changes in the loss allowance balance are recognized in profit or loss as an impairment gain or loss. The adoption of the ECL model does not have a material impact on the Corporation's financial statements and did not result in a transitional adjustment.

(All amounts in thousands of Canadian dollars)

2. Summary of Significant Accounting Policies – *cont'd*

The Corporation's financial assets and liabilities, or financial instruments, include cash, trade and other receivables, bank overdraft and indebtedness, accounts payable and accrued liabilities and short-term debt, convertible debentures and long-term debt financial instruments. All financial instruments are recorded at fair value at recognition. Subsequent to initial recognition, financial instruments classified as accounts payable and accrued liabilities, loans, long-term debt and convertible debentures are measured at amortized cost using the effective interest method. Other financial assets and liabilities are recorded at fair value subsequent to initial recognition.

The following summarizes the Corporation's classification and measurement of financial assets and liabilities as at:

	Measurement	**July 31, 2019**	October 31, 2018
Financial assets:			
Cash	Fair value through profit or loss	**-**	11
Trade receivables	Amortized Cost	**1,508**	731
Other receivables	Amortized Cost	**118**	153
Financial liabilities:			
Bank overdraft	Amortized cost	**77**	-
Bank indebtedness	Amortized cost	**-**	850
Accounts payable and accrued liabilities	Amortized cost	**4,346**	2,054
Loans	Amortized cost	**-**	96
Long term loans	Amortized cost	**-**	953
Convertible debentures	Amortized cost	**-**	507

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or financial liabilities, other than financial assets and financial liabilities measured at FVTPL are accounted for as part of the carrying amount of the respective asset or liability at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Transaction costs on financial assets and financial liabilities measured at FVTPL are expensed in the period incurred. Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred. All derivative instruments, including embedded derivatives, are recorded in the financial statements at fair value.

3. Use of Estimates and Judgements

The preparation of the unaudited condensed consolidated interim financial statements requires management to undertake several judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from these judgements and estimates. These estimates and judgements are based on management's best knowledge of the events or circumstances and actions the Corporation may take in the future. The estimates are reviewed on an ongoing basis. Information about the significant judgements, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in *Note 3* of the Corporation's 2018 annual financial statements and are still applicable for the nine months ended July 31, 2019.

4. Trade and other Receivables

	July 31, 2019	October 31, 2018
Trade receivables	**1,508**	731
Receivables from others	**13**	122
Sales taxes receivable	**105**	32
	1,626	885

(All amounts in thousands of Canadian dollars)

5. Intangible Assets

	Note	**Regulatory submission costs**	**License fee**	**Total**
Balance as at October 31, 2018		**984**	**1,000**	**1,984**
Additions	*21*	**737**	**1,037**	**1,774**
Amortization		**(14)**	**(8)**	**(22)**
Balance as at July 31, 2019		**1,707**	**2,029**	**3,736**

Regulatory submission costs include both internal and external costs incurred for securing marketing approval in Canada or United States or listing the Corporation's drugs for reimbursement. During the period such expenses were incurred mainly for Onstryv (Safinamide), Redesca, a low-molecular weight heparin Biosimilar, as well Ethacrynate Sodium.

License fee additions relate to the licensing agreement with Zambon S.p.A. ("Zambon") for Canadian commercial rights to Onstryv (Safinamide), a brand product for the treatment of Parkinson's Disease. Pursuant to the terms of the agreement, the Corporation paid an upfront fee of $1,000 and is further obligated to pay additional licensing milestone fees of $1,000, royalty fees on sales and sales milestone payments. Amortization of licensing fees commenced on commercial activities of the product which started in July 2019.

6. Operating Loan

On July 31, 2019, the Corporation entered into a new revolving demand credit facility with its present lender. Borrowed amounts under the facility will at all times be the lesser of $2,000 and the total of (a) assigned credit balances for the Corporation plus (b) 80% of Canadian and US based accounts receivables of the Corporation net of over 90 day accounts, contra accounts, related accounts and all other accounts not valued by the lender plus (c) 50% of inventory value up to a maximum of $500.

The Lender will make the facility available by way of Prime Rate Based Loans in CAD$, United States Base Rate ("USBR") Loans in USD$ and Stand-by Letters of Guarantee in CAD$. For the borrowing options available to the Corporation, the interest rates are Prime Rate + 0.75% per annum for Prime Based Loans; USBR +0.75% per annum for USBR Loans and for Letters of Guarantee the rate will be that set out in the Letter of Credit Indemnity Agreement applicable to the issued Letter of Guarantee.

7. Accounts Payable and Accrued Liabilities

	Note	**July 31, 2019**	October 31, 2018
Trade accounts payable		**2,614**	1,559
Payables to related parties *(i)*		**117**	88
Other accounts payable and accrued liabilities	*5*	**1,615**	407
		4,346	**2,054**
(i) Included in Payables to related parties			
Compensation owed to a person who is an officer		**30**	20
Consulting fees owed to a company controlled by an officer		**19**	12
Expenses owed to persons who are officers, employees and consultants incurred in the normal course of business		**68**	56

8. Loans, Long Term Loans and Convertible Debentures

Loans and long-term loans include secured and unsecured loans from actual or former shareholders, with no set terms of repayment. Amounts owed are presented below:

	Interest rates	**Maturity Date**	**July 31, 2019**	October 31, 2018
unsecured	1% per month	June 30, 2019	**-**	96
	8% per year	March 31, 2020	**-**	403
	8% per year	March 31, 2020	**-**	166
secured	5% per year	November 1, 2019	**-**	-
	5% per year	November 1, 2019	**-**	384
Current liabilities			**-**	96
Non-current liabilities			**-**	953

(All amounts in thousands of Canadian dollars)

8. Loans, Long Term Loans and Convertible Debentures – *cont'd*

Convertible debentures consist of an unsecured debenture due to a shareholder, with no set terms of repayment. Details below:

	Interest rates	Maturity Date	July 31, 2019	October 31, 2018
unsecured	8% per year	November 30, 2019	**-**	507

During the 1st and 2nd quarter 2019, the Corporation issued $900 of additional unsecured subordinated convertible debentures, maturing on January 31, 2020. The debentures bear interest at 5% per annum from the date of issue, payable quarterly in arrears. On February 18, 2019, the Corporation converted $1,400 of outstanding debentures, plus accrued interest of $27 into 3,567,158 Class "A" common shares *(Note 10),* representing a conversion price of $0.40 per share. On July 25, 2019, the Corporation converted $915 of outstanding loans, plus accrued interest of $67 into 1,964,257 Units *(Note 10),* representing a conversion price of $0.50 per share.

9. Income Taxes

Deferred tax assets have not been recognized in respect of deductible temporary difference of approximately $525 which arise from non-capital losses incurred in the nine-month period to July 31, 2019.

The Corporation has accumulated non-capital losses of $3,962 for income tax purposes in Canada and US $93 for income tax purposes in the United States, which are available to be applied against future taxable income and expire as follows:

	CDN	US
2029	-	33
2030	-	2
2031	-	11
2032	-	42
2033	-	3
2034	-	-
2035	3	-
2036	20	1
2037	1,191	1
2038	2,748	-

10. Share Capital

The Corporation was incorporated under the Canada Business Corporations Act on March 27, 2003. The Authorized Share Capital is composed of an Unlimited number of Class A shares, voting, participating with no par value. The issued and outstanding share capital is as follows:

	Notes	Number of Class A shares	$
Balance as at October 31, 2018		44,903,008	4,659
Share Issue costs		-	(162)
Conversion of debentures into shares	(i)	3,567,158	1,427
Issuance of units	(ii)	6,225,000	2,583
Unit issue costs		-	(567)
Conversion of loans into shares	(iii)	1,964,257	815
Balance as at July 31, 2019		**56,659,423**	**8,755**

(i) On February 18, 2019, convertible debentures in the amount of $1,427 were surrendered and converted into 3,567,158 Class A Shares representing a conversion price of $0.40.

(All amounts in thousands of Canadian dollars)

10. Share Capital – *cont'd*

(ii) On July 25, 2019 the Corporation closed a marketed public offering (the "Offering") of units (the "Units") at a price of $0.50 per Unit (the "Offering Price") for aggregate gross proceeds to the Company of $3.1 million. Each Unit consists of one Class A share (a "Share") and one Share purchase warrant (a "Warrant"). Each Warrant is exercisable into one Share in the capital of the Company (a "Warrant Share") at the price of $0.60 per Warrant Share for a period of 36 months from Closing. If, at any time prior to the expiry date of the Warrants, the volume weighted average trading price of the Shares on the Canadian Securities Exchange ("CSE") equals or exceeds $1.10 for 20 consecutive trading days, the Company may, within 15 days of the occurrence of such event, deliver a notice to the holders of Warrants accelerating the expiry date of the Warrants to the date that is 30 days following the date of such notice (the "Accelerated Exercise Period"). Any unexercised Warrants shall automatically expire at the end of the Accelerated Exercise Period. As a result of this transaction, $696 was allocated to Warrants on the statement of financial position as the Corporation has adopted a residual value method with respect to the measurement of its Warrants. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value to the less easily measurable component.

(iii) Concurrently with closing of the Offering, certain related parties to the Corporation converted an aggregate of $982 in outstanding loans and accrued interest thereon into Units at a price equal to the Offering Price.

(c) Share option issuances and compensation expense:

In fiscal 2018, the Corporation adopted an amended and restated stock option incentive plan for directors, officers and employees to enable the purchase of common shares of the Corporation. The exercise price for these shares cannot be less than the lowest price permitted by applicable regulatory authorities. Subject to the terms of the plan, the Board of Directors may, from time to time, grant options to participants to purchase that number of shares that, they determine, in their absolute discretion.

The shares subject to each option shall become available for purchase by the participant from the Corporation on the date or dates determined by the Board of Directors when the option is granted. In the event of the termination of an optionee who is either an employee or director/officer, the Board of Directors may extend the period during which the optionee may exercise the options provided such period does not exceed three months from termination of employment or duties as director.

The number of shares subject to an option shall not exceed 10% of the total issued and outstanding Common shares; and no one optionee shall be granted options that exceed 5%, 2% for any one consultant and 2% for any one person retained to provide investor relation services, for in a twelve-month period of the issued and outstanding common shares of the Corporation (on a non-diluted basis).

Changes in outstanding options were as follows during the year:

	July 31, 2019		October 31, 2018	
	Number	**Weighted Average Exercise Price**	Number	Weighted Average Exercise Price
Options outstanding, beginning of year	**1,740,810**	**$0.37**	365,810	$0.25
Cancelled during the period	**(150,000)**	**$0.40**	-	-
Granted during the period	**1,222,222**	**$0.40**	1,375,000	$0.40
Options outstanding, end of period	**2,813,032**	**$0.40**	1,740,810	$0.37
Options exercisable, end of period	**1,309,509**	**$0.37**	536,858	$0.37

The following options were granted in the respective reporting periods:

For the period ended July 31, 2019

Number	**Notes**	**Issue date**	**Expiry date**	**Exercise price**	**Fair value of options**
200,000	(i)	November 13, 2018	November 13, 2025	$0.40	$0.21
200,000	(ii)	November 19, 2018	November 19, 2025	$0.40	$0.21
397,222	(ii)	February 19, 2019	February 19, 2024	$0.40	$0.40
325,000	(ii)	July 31, 2019	July 31, 2024	$0.50	$0.35
100,000	(iii)	July 31, 2019	July 31, 2024	$0.50	$0.35
1,222,222					

(All amounts in thousands of Canadian dollars)

10. Share Capital – *cont'd*

For the period ended October 31, 2018

Number	Notes	Issue date	Expiry date	Exercise price	Fair value of options
400,000	(i)	September 17, 2018	September 17, 2025	$0.40	$0.27
650,000	(ii)	September 17, 2018	September 17, 2025	$0.40	$0.27
325,000	(iv)	September 17, 2018	September 17, 2025	$0.40	$0.27
1,375,000					

(i) The options vest 25% immediately and then 37.5% on the first and second anniversary of the grant.

(ii) The options vest 25% immediately and then 25% on the first, second and third anniversary of the grant.

(iii) 50,000 of these options vested on April 15th, 2019 while 25,000 will vest on August 1, 2019 and November 1, 2019 respectively.

(iv) These options vest on performance criteria related to funds raised by the Corporation. These options have a cancellation date of December 31, 2020.

The remaining contractual life for the share options outstanding as at July 31, 2019 are:

Number of options	Exercisable	Stock Price	Fair Value	Exercise price	Remaining contractual life
365,810	365,810	$0.36	$0.14	$0.25	1.76
2,022,222	812,449	$0.36	$0.21 - $0.40	$0.40	5.60
425,000	131,250	$0.36	$0.36	$0.50	5.01
2,813,032	1,309,509				

The fair values of the options were estimated using the Black-Scholes option pricing model, with the following assumptions:

Risk-free interest rate	0.72% - 2.42%
Volatility factor	67% - 90%
Expected life	2.6 - 4.6 years
Expected dividend rate	0%
Forfeiture rate	0%

The expected stock price volatility of was estimated by using historical data from public companies in the same sector and the duration of each of the award. The total share-based compensation in the third quarter of 2019 amounted to $111 (2018 - $2) recognized in contributed surplus.

11. Other Cash Flow Information

Net Change in non-cash assets and liabilities related to operations:

	Nine months ending	
	July 31, 2019	July 31, 2018
	$	$
Decrease (increase) in trade receivables	**(777)**	(671)
Decrease in prepaid expenses	**(91)**	(21)
Decrease (increase) in inventory	**(261)**	(181)
Decrease (increase) in other receivables	**(14)**	30
Increase (decrease) in accounts payable and accrued liabilities	**683**	416
Decrease in income taxes	**1**	845
	(459)	418

(All amounts in thousands of Canadian dollars)

12. Revenues

	Three months ending		Nine months ending	
	July 31, 2019	July 31, 2018	**July 31, 2019**	July 31, 2018
	$	$	**$**	$
Net product revenue	**2,601**	2,111	5,406	2,398
Agency revenue	**-**	-	-	234
	2,601	2,111	**5,406**	**2,632**

Net product revenue: Revenues from the sale of products less product returns and price adjustments.

Agency revenue: The Corporation was acting as an agent under a contract that was effective January 1, 2016. Revenue from the distribution of the products under this contract was shown on a net basis in the statement of profit of loss, net of the cost of sales. Effective May 1, 2018, the contract has been amended and the Corporation has taken over more responsibilities in relation to the product and sales of the product. Therefore, the Corporation has determined that it is acting as the principal in the sales of these products. As such, revenues from the sale of these products are now accounted for on a gross basis, in the same manner as its other products.

13. Sales and Marketing Expenses

	Three months ending		Nine months ending	
	July 31, 2019	July 31, 2018	**July 31, 2019**	July 31, 2018
Sales expenses	**155**	24	**337**	47
Marketing expenses	**11**	(12)	**355**	(32)
Employee compensation	**281**	127	**609**	384
	447	140	**1,301**	399

14. General and Administrative Expenses

	Three months ending		Nine months ending	
	July 31, 2019	July 31, 2018	**July 31, 2019**	July 31, 2018
Depreciation of property and equipment	**10**	10	**30**	29
Amortization of intangible assets (*Note 5*)	**15**	2	**22**	2
Administrative expenses	**367**	241	**975**	690
Product development costs	**(6)**	-	**8**	-
Employee compensation	**221**	337	**992**	1,047
Pension expense	**-**	-	**5**	4
	547	590	**2,032**	1,772

15. Financial Expenses

	Three months ending		Nine months ending	
	July 31, 2019	July 31, 2018	**July 31, 2019**	July 31, 2018
Interest on loans	**18**	21	**53**	48
Interest on debentures	**-**	31	**20**	102
Foreign exchange fluctuation	**3**	1	**1**	-
Credit facility costs, cash discounts and bank charges	**52**	44	**132**	70
	73	97	**206**	220

16. Other Income

	Three months ending		Nine months ending	
	July 31, 2019	July 31 ,2018	**July 31, 2019**	July31 ,2018
Interest income	**-**	-	**-**	1
Rental income	**8**	8	**24**	17
Service income	**56**	57	**178**	71
	64	65	**202**	89

(All amounts in thousands of Canadian dollars)

17. Related Party Transactions

The accounts of the Corporation include the following related party transactions that are not disclosed elsewhere in these financial statements:

	Three months ending		Nine months ending	
	July 31, 2019	July 31,2018	**July 31, 2019**	July 31, 2018
Key management salary and benefits	**224**	243	**622**	737
Directors and employee stock option compensation	**111**	2	**228**	6
Consulting fee paid to a company controlled by an officer	**29**	-	**135**	-

18. Financial Instruments

The tables below indicate the carrying values of assets and liabilities for each of the following categories:

July 31, 2019,	**Fair value through profit and loss**	**Fair value through other comprehensive income**	**Amortized cost**
Financial assets:			
Trade receivables	-	-	**1,508**
Other receivables	-	-	**118**
	-	-	**1,626**
Financial liabilities:			
Bank overdraft	**-**	-	**77**
Bank indebtedness	**-**	-	**-**
Accounts payable and accrued liabilities	**-**	-	**4,346**
Loans	**-**	-	**-**
	-	**-**	**4,423**

October 31, 2018	Carrying Value		
	FVTPL Level 1	Loans and receivables Level 3	Fair Value
Financial Assets			
Cash	11	-	11
Trade receivables	-	731	731
Other receivables	-	154	154
	11	885	896
Financial Liabilities			
Bank indebtedness	-	850	850
Accounts payable and accrued liabilities	-	2,054	2,054
Loans	-	96	96
Long-term loan	-	953	953
Convertible debt	-	507	507
	-	4,460	4,460

Short term financial instruments, comprising trade receivables, other receivables, bank indebtedness, accounts payable and accrued liabilities and loans are carried at amortized costs, which, due to their short-term nature, approximates their fair value. Long term financial instruments consist of loans and convertible debt. The fair value of debt is based upon discounted future cash flows, using a discount rate, adjusted for the company's own credit risk, that reflects current market conditions for instruments with similar terms and risks.

The Corporation categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observation of the inputs used in the measurement. For the periods ended July 31, 2019 and October 31, 2018, the Corporation has carried at fair value financial instruments in Level 1. At July 31, 2019, the Corporation's only financial instrument measured at fair value is cash, which is considered a Level 1 instrument. There were no transfers between levels during the year.

(All amounts in thousands of Canadian dollars)

18. Financial Instruments – *cont'd*

The three levels are defined as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

The following table provides the fair value measurement hierarchy of the Corporation's assets and liabilities.

Date of Fair Value Measurement		**Level 1**	**Level 2**	**Level 3**
		$	**$**	**$**
July 31, 2019				
Assets	**None**	**-**	**-**	**-**
Liabilities	**None**	**-**	**-**	**-**
October 31 2018				
Assets	Cash	11	-	-
Liabilities	None	-	-	-

The fair value of a financial instrument is approximated by the consideration that would be agreed to in an arm's length transaction between willing parties and through appropriate valuation methods, but considerable judgement is required for the Corporation to determine the value. The actual amount that could be realized in a current market exchange could be different than the estimated value.

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow and fair value interest rate risk); credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on the Corporation's financial performance. The Corporation does not use derivative financial instruments to hedge these risks.

19. Financial Risk Factors

(a) Market risk

(i) Currency risk

The Corporation is exposed to financial risks that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. Valeo has an investment in a U.S. subsidiary however this subsidiary is currently not active. The Corporation does not hold financial derivatives to manage the fluctuation of these risks. At July 31, 2019, a 5% increase/decrease in the USD/CDN exchange rates would not have a material impact on net loss or equity. Other comprehensive income would not have been materially impacted in either of the above two situations.

(ii) Cash flow and fair value interest rate risk

The Corporation is exposed to fluctuation in its future cash flows arising from changes in interest rates through its variable rate financial assets and liabilities. Convertible debentures or long- term loans negotiated at a fixed rate expose the Corporation to fair value interest rate risk.

(b) Credit Risk

The Corporation considers its maximum credit risk to be based on the following financial assets: cash, trade and other receivables. Credit-risk arises from cash and deposits with banks and financial institutions. The Corporation reduces this risk by dealing with creditworthy financial institutions. Credit risk also results from the possibility that a loss may occur from the failure of another party to adhere to payment terms. To lower this risk, the Corporation's extension of credit is based on an evaluation of each customer's financial condition. Management reviews the ageing of trade accounts receivable and other factors relating to the risk that customer accounts may not be paid in full and, when appropriate, reduces the carrying value to provide for possible loss. No loss has been charged to earnings in the current year.

The Corporation sells its products through a small number of wholesalers and retail pharmacy chains. As at July 31, 2019, 71% of trade accounts receivables are current (less than 30 days). As at July 31, 2019, three customers accounted for 85% of the trade receivables. The Corporation believes that there is no unusual exposure associated with the collection of these receivables.

(All amounts in thousands of Canadian dollars)

19. Financial Risk Factors – *cont'd*

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at July 31, 2019.

	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Bank overdraft	**77**	**-**	**-**	**-**	**77**
Bank indebtedness	**-**	**-**	**-**	**-**	**-**
Accounts payable and accrued liabilities	**1,508**	**1,731**	**1,107**	**-**	**4,346**
Loans	**-**	**-**	**-**	**-**	**-**
	1,585	**1,731**	**1,107**	**-**	**4,423**

20. Capital Structure Financial Policy

The Corporation's objectives for managing capital are: (i) to maintain a flexible capital structure which optimizes the cost/risk equation; and (ii) to manage capital in a manner which maximizes the interests of our shareholders.

The Corporation manages the capital structure and makes adjustment to it considering changes in economic conditions and the risk characteristics of the underlying assets. The Corporation's capital structure is managed in conjunction with the capital structure and financial needs of the day-to-day operations. The Corporation currently funds the working capital requirements out of its internally generated cash

flows and the use of credit facilities. To maintain or adjust the capital structure, the Corporation will work to secure new debt from its shareholders and expand the shareholder base with new participation that would make additional funds available.

Management does not establish quantitative return on capital criteria, however management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Corporation, is appropriate. At July 31, 2019 the Corporation is not subject to any externally imposed capital requirements.

21. Adjustments to prior reported periods

The Corporation has determined that the methodology used to calculate the carrying value of its intangibles did not capture all relevant costs for Q1-119 and Q2-19. Certain costs, both internal and external, have not been capitalized and the Corporation has determined that adjustments were required. An adjustment of $294 was made to the opening Deficit balance for the Q3-19 period, following a $121 and $173 addition to intangibles for the Q1-19 and Q2-19 periods respectively. Amortization on such additions was deemed not material based on a 10-year period that commenced in July 2019.

22. Subsequent events

a) In August 14, 2019, Valeo was informed by Mallinckrodt, that the global rights to Synacthen had been sold to Atnahs Pharma UK Limited ("Atnahs"), effective July 31, 2019. Consequent to this transaction Atnahs has assumed all obligations and responsibilities of the distribution agreement signed between Mallinckrodt and Valeo in September 2014.

b) During the month of September 2019, the Corporation began commercializing Ondansetron ODT, as well as Benztropine. Both products are available across all Canadian provinces via various retail pharmacy chains.