# VALEO PHARMA INC.

Financial Report

January 31, 2019

VALEO PHARMA™

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## FOR THE THREE-MONTH PERIOD ENDED JANUARY 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 periods ending January 31, 2019 was prepared by management from information available as at March 25, 2019, should be read in conjunction with the unaudited consolidated financial statements and notes thereto for the quarter ended January 31, 2019 which have been prepared in accordance with *International Financial Reporting Standards*. Unless otherwise noted, all amounts are presented in 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", "Net contribution from Product Sales" and "Adjusted net margins from Product Sales", 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" is defined as net income (loss) before: (i) provision for (recovery of) income taxes; (ii) interest (income) expense and other financing costs; (iii) depreciation of property, plant, and equipment; and (iv) amortization of intangible assets.

"Net contribution from Product Sales" is defined as revenues from the sale of products less the cost of goods related to those products.

"Adjusted net margins from Product Sales" is defined as Net contribution from Product Sales plus the costs and other income reimbursed by our partners, as a percentage of Total Product Revenues.

### 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 commercializing 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 commercialisation strategy.

For our branded prescription product segment, Valeo's current and future product pipeline will include innovative products, with a focus on neurology, women's health and oncology. For our second business segment of niche hospital products which includes generics, the Corporation focuses mainly on licensing or acquiring injectable products used in the hospital setting for pain management and oncology supportive care. 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 or 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 product in Canada. Preferences are for products that are already approved in other territories such as Europe, Japan or the United States. Some of these products may require up-front and or regulatory and commercial stage milestone payments, as well as approval from *Health Canada* prior to commercialization.

**As at the end of the first quarter of 2019, Valeo Pharma's product portfolio included:**

| 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. We have actively commenced launch preparation for Onstryv and expect to start commercializing this product in June 2019. |
| **Utrogestan** (Distribution Agreement) | micronized progesterone indicated for luteal phase support during in vitro fertilization cycles | *Besins Healthcare* | The product has received *Health Canada* approval and Valeo expects to start commercialization of Utrogestan in the third quarter of fiscal year 2019. |
| **Synacthen** (Distribution Agreement) | 17 approved indications including several in neurology | Mallinckrodt Pharmaceuticals ("Mallinckrodt" | Valeo currently markets this product for severe multiple sclerosis to approximately 100 neurology specialists across Canada as well as for gout. 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 the third quarter of the current fiscal year. |
| **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. Effective May 1, 2018, the contract was amended with Valeo assuming more commercial and quality control responsibilities and consequently revenues are now accounted for on a gross basis |
| **Ethacrynate Sodium** | Loop diuretic used to treat high blood pressure and associated swelling | Owned by Valeo worldwide except for Italy | **Canada** - Valeo has initiated commercialization of the product in the third quarter of fiscal 2018.<br>**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 fiscal year 2019. |
| **Benztropine** (Distribution Agreement) | Anticholinergic agent used for the treatment of Parkinson's disease | Phebra PTY Ltd. | Approved by Health Canada, on March 21, 2019. (See "Subsequent Events"), The Corporation expects to start commercializing the product before year-end. |
| **Ondansetron** (License) | Prevention of nausea and vomiting caused by cancer chemotherapy | Athena Pharmaceutiques S.A.S. | Approved and Marketed in Canada. The Corporation has acquired the marketing authorization from Athena. Valeo expects to start commercializing the product before year-end. |
| **Hospital Products (7)** (4 Licenses) | Anti-fungal, Anti-infectives, Pain management and others | Four Undisclosed partners | The Corporation has acquired the Canadian rights to seven additional hospital products not yet approved in the territory, including three product rights acquired subsequent to the end of the quarter (See "Subsequent Events"). 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 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 to-18 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.

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, 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.

**First Quarter 2019 Corporate Highlights**

**a) Amendment to the Zambon license.**

On January 1, 2019, the Corporation and Zambon, agreed to defer a milestone payment of $350,000, which was initially due on approval of Onstryv by Health Canada. This milestone is now payable at that time following the launch date of the product in Canada.

**b) Approval of Onstryv by Health Canada.**

On January 15, 2019, the Corporation and Zambon, announced the approval of Onstryv (Safinamide) for the treatment of Parkinson's Disease in Canada. Under the terms of the agreement with Zambon, the Corporation is responsible for all regulatory, quality, sales and marketing, and distribution activities in Canada.

**Statement of Compliance**

The financial statements included in this MD&A for the ending January 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.

| **Asset / Liability** | 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 |
| Loan | Other liabilities | Amortized cost |
| Long term loans and convertible debentures | Other liabilities | Amortized cost |

**Recently adopted accounting policies –** *cont'd*

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.

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

| | Measurement | **January 31 2019 $** | October 31 2018 $ |
|---|---|---|---|
| Financial assets: | | | |
| Cash | Fair value through profit or loss | **-** | 11,469 |
| Trade receivables | Amortized cost | **840,948** | 730,761 |
| Other receivables | Amortized cost | **198,741** | 153,364 |
| Financial liabilities: | | | |
| Bank overdraft | Amortized cost | **29,880** | - |
| Bank indebtedness | Amortized cost | **650,000** | 850,000 |
| Accounts payable and accrued liabilities | Amortized cost | **2,902,621** | 2,054,052 |
| Loans | Amortized cost | **486,205** | 95,843 |
| Long term loans | Amortized cost | **579,781** | 952,915 |
| Convertible debentures | Amortized cost | **1,073,812** | 506,790 |

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.

**First Quarter 2019 Financial Overview**

- Total revenues were $1,832,229 as compared to $245,549 in the prior year, representing a 646% increase.
- Net Product contribution was $286,122 as compared to $12,683 in the prior year, representing a 2156% increase.
- Net loss after taxes is $988,544 compared to a loss after taxes of $612,554.

### Selected Quarterly Financial Data

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

| | Three months ending | | | |
|---|---|---|---|---|
| **Consolidated Statements of Loss** | **January 31, 2019** | January 31, 2018 | *Change* | *Change* |
| | **$** | $ | *$* | *%* |
| Revenues | **1,832,229** | 245,549 | *1,586,680* | *+646%* |
| Cost of Sales | **(1,546,107)** | (108,357) | *(1,437,750)* | *+1327%* |
| **Gross Profit** | **286,122** | 137,192 | *148,930* | *+109%* |
| Selling, general and administrative expenses | **(1,268,180)** | (686,053) | *(582,127)* | *+85%* |
| Financial expenses | **(71,671)** | (65,693) | *(5,978)* | *+9%* |
| Other income | **65,185** | 2,000 | *63,185* | *+3159%* |
| | **(1,274,666)** | (749,746) | *(524,920)* | *+70%* |
| **Loss before income taxes** | **(988,544)** | (612,554) | *(375,990)* | *+61%* |
| (Provision for) recovery of income taxes | **-** | - | - | - |
| **Net loss for the year** | **(988,544)** | (612,554) | *(375,990)* | *+61%* |
| **Other comprehensive loss** | | | | |
| Exchange differences on translating foreign operations | **(18)** | 6,085 | *(6,103)* | *-100%* |
| **Total comprehensive loss** | **(988,562)** | (606,469) | *(382,093)* | *+63%* |
| **Loss per share** | | | | |
| Basic and diluted | **(0.02)** | (0.02) | - | *0%* |
| **Weighted average number of shares outstanding** | **44,903,008** | 31,400,000 | *13,503,008* | *43%* |

The following table provides a reconciliation of net loss to EBITDA for the three-month period ended January 31, 2019 and January 31, 2018.

| | Three months ending | | | |
|---|---|---|---|---|
| | **January 31, 2019** | January 31, 2018 | *Change* | *Change* |
| | **$** | $ | *$* | *%* |
| **Net loss for the quarter** | **(988,544)** | (612,554) | *(375,990)* | *+61%* |
| *Add (deduct)* | | | | |
| Provision for income (recovery of) income taxes | **-** | - | - | - |
| Interest expense | **43,448** | 55,587 | *(12,139)* | *-22%* |
| Depreciation of property and equipment | **9,539** | 9,493 | *46* | *0%* |
| Amortization of intangible assets | **3,102** | - | *3,102* | *+100%* |
| **Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA(L))** | **(932,455)** | (547,474) | *(384,941)* | *+70%* |

| Consolidated Balance Sheet Highlights | **January 31, 2019** | October 31, 2018 |
|---|---|---|
| | **$** | $ |
| (Bank overdraft) / Cash | **(29,880)** | 11,469 |
| Current assets | **1,204,549** | 1,044,731 |
| Total assets | **3,625,140** | 3,385,465 |
| Current liabilities | **5,197,735** | 3,051,804 |
| Long-term loans, debentures and pension obligation | **816,191** | 1,701,167 |
| Share Capital | **4,593,163** | 4,659,149 |
| Contributed Surplus | **300,156** | 266,888 |
| Deficit | **7,089,781** | 6,101,237 |

### Revenue Analysis

| | Three months ending | | | |
|---|---|---|---|---|
| | **January 31, 2019** | January 31, 2018 | *Change* | *Change* |
| | **$** | $ | *$* | *%* |
| Net Product revenue | **1,832,229** | 121,040 | *1,711,189* | *+1414%* |
| Agency revenue | **-** | 124,508 | *(124,508)* | *-100%* |
| Total Revenues | **1,832,229** | 245,548 | *1,586,680* | *+646%* |
| Cost of sales | **(1,546,107)** | (108,357) | *(1,437,750)* | *+1327%* |
| Gross Profit | **286,122** | 137,192 | *148,930* | *+109%* |
| Gross Profit % | **15.6%** | 55.9% | *+9.4%* | *17%* |
| ***Additional Information*** | | | | |
| Net contribution from Product Sales | 286,122 | 12,683 | *273,439* | *+2156%* |
| Net margin from Product Sales (“Net Margin”) | 15.6% | 10.1% | | |
| Adjusted Net Margins on Product Sales (“Adjusted Net Margins”) | 18.9% | 59.9% | | |

Total revenues for the first quarter of 2019 reached $1,832,229 compared to $245,548 in 2018 representing a 646% increase. In 2018, the bulk of the Corporation’s revenues related to the sale and distribution of Synacthen for Mallinckrodt, as well as M-Eslon and M-Ediat for Ethypharm. Prior to May 1, 2018, the Corporation was acting as an agent under the Ethypharm distribution contract, therefore, revenues relating to the products sold under this arrangement were recorded on a net basis in the consolidated statements of loss, net of the 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 and M-Ediat which led to Valeo acting as the principal in the sales of these products. Following this amendment, revenues from the sale of M-Eslon and M-Ediat are 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. Due to the change in the Ethypharm contract, Product Revenues have increased significantly from the first quarter of 2018 to the first of 2019 and represented a 1414% increase, while agency revenues have decreased to nil during the same period. Since May 2018, our revenues also included sales of Ethacrynate Sodium launched in Canada.

### Net Contribution Margin from Product sales

Net contribution from Product Sales have increased significantly between the two reported quarters as a result of the change in the Ethypharm contract (see “Revenue Analysis”). As a result of this change the Net Margin has increased from 10.1% to 15.6% between the two reported periods. Our Net Margins do not take into account selling cost reimbursed by both Mallinckrodt and Ethypharm for sales of product performed by Valeo. These reimbursements are applied as a reduction of SG&A expenses and /or included in Other Income. After taking into account these reimbursements and other income, our adjusted Net Margins on Product Sales would have been 59.9% and 18.9% respectively for the first quarter of 2018, and 2019 and would be more indicative of the true Net Margin we are receiving from the sale of our existing products.

With up to five new products to be launched in 2019, as well as the addition of several new products in the coming years, our total Net Margins are expected to improve significantly as the mix of our product revenues incorporates sales of new products with respective product net margins ranging from 40% to 80%.

### Sales, General and Administrative Expenses

Our SG&A expenses have increased significantly between the two reported periods. SG&A expenses in the first quarter of 2019 was $1,268,180 compared to $686,053 in the corresponding quarter in 2018 representing an 85% increase. The $582,127 increase includes more than $370,000 of non-recurrent marketing expenses incurred specifically for preparing the launch of Onstryv and Utrogestan in the coming quarters as well as for ensuring proper marketing access for the products throughout the various Canadian territories.
The increase also includes the addition of scientific, sales as well as administrative personnel. Stock based compensation increased as compared to the year ago period as more options have been granted resulting in increased administration expenses.

### Financial Expenses

In the current fiscal year, financial expenses were $71,671 compared to $65,693 in 2018. The increase was mainly explained by an increase in the corporation's borrowing rates which are based on Canada's prime rate as well an increase of interests charged on the Corporation's loans.

### Other Income

Other income for first quarter of 2019 totalled $65,185 as compared to 2,000 in the corresponding period last year. Other Income increased by 3159% 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 expertise of its staff, Valeo remains opportunistic and offers back-office administrative and third-party consulting support to virtual companies that are sub-leasing part of its premises.

### Provision for Income Taxes

The Corporation has accumulated non-capital losses of $3,961,998 for income tax purposes in Canada and US$93,218 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

| | 2019 | 2018 | | | | 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | Q3 | Q2 |
| Net Product Revenue (Note 1) | **1,832,229** | 1,750,206 | 2,110,559 | 166,825 | **121,040** | 159,800 | 213,566 | 237,615 |
| Agency revenue | | - | - | 108,542 | **124,509** | 111,377 | 119,327 | 124,219 |
| Cost of goods sold | **1,546,107** | 1,603,648 | 1,676,692 | 160,017 | **108,357** | 142,327 | 188,145 | 249,767 |
| Gross Profit *(Note 2)* | **286,122** | 146,558 | 433,867 | 115,350 | **137,192** | 128,850 | 144,748 | 112,067 |
| SG&A expense | **1,268,180** | 1,084,981 | 729,919 | 752,886 | **693,531** | 790,264 | 734,478 | 909,934 |
| Financing expense | **71,671** | 45,561 | 97,202 | 56,700 | **65,694** | 52,635 | 38,980 | 29,246 |
| Other (income) expense | **(65,185)** | (59,535) | (64,609) | (14,232) | **(9,475)** | 49,208 | (8,855) | (65,440) |
| Impairment of Investment | **-** | 4,592 | - | - | **-** | - | - | - |
| (Recovery) impairment on balance of sale | **-** | - | - | (150,000) | **-** | 856,348 | (10,226) | 920,476 |
| Net loss before taxes | **(988,544)** | (929,041) | (328,645) | (530,004) | **(612,558)** | (1,619,605) | (609,629) | (1,682,149) |
| Recovery of (provision for) income tax | **-** | - | 5,327 | (42,044) | **-** | 395,090 | 145,000 | 181,123 |
| Net loss for the quarter | **(988,544)** | (929,041) | (323,318) | (572,048) | **(612,558)** | (1,224,515) | (464,629) | (1,501,026) |

**Notes**

1. Net product revenues for the first quarter of 2018 and 2019 came entirely from the distribution of hospital products. Prior to the third quarter of 2018, revenue from the agency agreement was recognized net of cost of goods sold. At the start of the third quarter of 2018, the agency contract was amended, and revenue from that contract is now recognized on a gross basis.
2. SG&A expenses will vary from quarter to quarter depending on business activities, however expenses in the first quarter of 2019 were higher as a result of increased marketing expenses

## Cash Flows, Liquidity and Capital Resources

### Cash Flows

| Sources and Uses of Cash | Three months ending January 31, 2019 $ | January 31, 2018 $ |
|---|---|---|
| **Operating activities:** | | |
| Net loss from operations | **(988,544)** | (612,557) |
| Other Items not affecting cash | **105,086** | 58,470 |
| Changes in non-cash working capital | **675,696** | 116,229 |
| Cash used in operations | **(207,762)** | (437,858) |
| **Investing activities**: | | |
| Cash used by investing activities | **(118,984)** | (35,193) |
| **Financing activities:** | | |
| Cash provided by financing activities | **335,328** | 472,617 |
| Foreign exchange loss (gain) on cash | **(20,051)** | (2,843) |
| Increase (decrease) in cash | **(11,469)** | (3,277) |
| Cash, beginning of period | **11,469** | 3,277 |
| **Cash, end of period** | **-** | - |

### (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 $207,762 compared to $467,858 in the prior year period. Major items and non-cash included in operations in 2019 were: (i) 988,562 net loss from operations (up 61% from 2018), (ii) $33,268 of share-based compensation compared to $2,071 for 2018 and (iii) $24,927 of provision for sales returns versus nil in 2018.

Changes in non-cash working capital components provided $675,714 of cash in the period compared to $116,229 in 2018.

### (b) Investing activities

Cash used by investing activities in the period was $118,984 as compared to cash used of $35,193 in 2018. In the period, cash of $110,264 was invested to acquire intangible assets.

### (c) Financing activities

During the period financing activities provided cash of $335,328 compared to providing cash of $472,617 in 2018. In the first quarter of 2019, a total of $550,000 was raised by way of issuance of debentures convertible into Common Shares of Valeo upon listing of the Corporation's shares on a Canadian Securities Exchange (See "Subsequent Events" note b)). This amount was mainly offset by a $200,000 reduction of the operating line of credit.

### Liquidity and Capital Resources

| | January 31, 2019 $ | January 31, 2018 $ |
|---|---|---|
| (Bank overdraft) / Cash | **(29,880)** | 11,469 |
| Working Capital (i) | **(3,604,221)** | (2,007,073) |
| Total assets | **3,625,140** | 3,385,465 |

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

In the period completed on January 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 increase in the Corporation's operating credit facility. There was a working capital deficiency of $3,993,186 as at January 31, 2019 compared to a working capital deficiency of $2,007,073 at the end of fiscal 2018.

**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.

Also, the Corporation's prior initiatives related to product acquisition rights and regulatory filings should lead to a series of product launches over the coming quarters. In addition to the anticipated launch of Onstryv as well as Utrogestan in the third quarter of the current fiscal year, the Corporation expects to 1) launch Benztropine (see "Subsequent Events") as well as two more products before year end, and 2) the regulatory approval of Sodium Ethacrynate in the United States in fiscal year 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 and possibly eliminate the need for further financings to fund our operations.

**Transactions with Related Parties**

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

| | Three months ending | |
|---|---|---|
| | **January 31, 2019** | January 31, 2018 |
| | **$** | $ |
| Key management salary and benefits | **204,960** | 238,333 |
| Directors and employee stock option compensation | **33,268** | 2,071 |
| Consulting fee paid to a company controlled by an officer | **45,000** | - |

**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

**Risk Management – Credit Risk** (Cont'd)

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 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 January 31, 2019. Long term loans and convertible debt held by the Corporation's shareholders also contribute to fund operations.

**(d) Specific Risks**

The Corporation has insurance policies in place against risks relating to general commercial liability, product liability, product recall, 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 considers capital to be composed of loans, convertible debt and shareholders' equity. At January 31, 2019, the Corporation has $97,240 of loans with former shareholders and $799,720 of long-term debt owed to the ultimate Parent company and $1,242,838 of loans and convertible debt. (see "Subsequent Events")

The Corporation manages its capital structure to meet the financial needs of the day-to-day operations. Over the last year, the Corporation has funded its the 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 or loans from 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 from its existing shareholders and/or third party lenders as well as look for opportunities to attract new capital by expanding its shareholder base. As at January 31, 2019 the Corporation is not subject to any externally imposed capital requirements.

**Commitments**

The Corporation's current lease expires on August 24, 2019 with monthly base rent payments of $6,977. The Corporation pays additional rent including its proportionate share of operating costs and taxes. (see "Subsequent Events")

Pursuant to the terms of the Zambon agreement, and in addition to the upfront payment of $1,000,000, the Corporation is further obligated to pay $1,000,000 following the launch date of the product; and sales milestones based on pre-determined annual Net Sales volumes. The Corporation is also required to pay royalties ranging from 10-20% based on aggregate annual Net Sales levels.

**Subsequent Events**

**a)** In July 2018, Valeo launched a non-brokered private placement of convertible debentures for maximum gross proceeds of up to $4,000,000. The debentures bear interest at a rate of 8% per annum. Each $1,000 principal amount of debentures are convertible into 2,500 shares representing a price per share equal to $0.40. Prior to the listing of the Corporation's shares on the CSE (see b) below), a total of $1,400,000 was raised as part of this non-brokered private placement. Following the end of the quarter, all outstanding Debentures and corresponding accrued interest were converted into shares at the conversion price, representing a total 3,567,158 shares.

**b)** On February 15, 2019 the shares of the Corporation were approved for listing on the Canadian Securities Exchange. Trading of the shares commenced February 20, 2019.

**c)** On February 25, 2019 the Corporation amended its current lease agreement. The term of the lease was extended for a five-year period commencing on September 1, 2019 and expiring on August 31, 2024 (the "Additional Term"). The base rent for the Additional Term will range from $92,092 to $98,790. In accordance with the term of the lease, the Corporation will pay additional rent including its proportionate share of operating costs and taxes.

**d)** On March 15th, 2019 the Corporation entered into a License and Supply agreement with an undisclosed partner to secure the rights to three products to be added to VPI's existing Hospital products portfolio. The products are subject to regulatory review by Health Canada. Regulatory filings are expected to take place over the coming year with marketing approval to follow within 9-12 months.

**e)** On March 21, 2019, Health Canada granted the Corporation's subsidiary VPI Pharmaceuticals Inc. a marketing approval for Benztropine, an anticholinergic agent used for the treatment of Parkinson's disease. The Canadian rights to the product have been acquired from VPI's partner, Phebra PTY Ltd. The Corporation expects to start commercializing the product before year-end.

# Valeo Pharma Inc.
## Condensed Interim Consolidated Financial Statements
For the three-month period ended January 31, 2019 and 2018

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# Valeo Pharma Inc.
## (Unaudited) Condensed Interim Consolidated Statements of Financial Position
*As at,*

| | *Note* | **January 31, 2019** **$** | October 31, 2018 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | **-** | 11,469 |
| Trade receivables | | **840,948** | 730,761 |
| Prepaid expenses | | **68,499** | 52,776 |
| Other receivables | *4* | **198,741** | 153,364 |
| Inventory | | **94,909** | 94,909 |
| Income tax recoverable | *9* | **1,452** | 1,452 |
| **Total current assets** | | **1,204,549** | 1,044,731 |
| Property and equipment | | **309,308** | 310,127 |
| Intangible assets | *5* | **2,090,783** | 1,983,621 |
| Deferred share issue costs | | **20,500** | 46,986 |
| **Total non-current assets** | | **2,420,591** | 2,340,734 |
| **Total assets** | | **3,625,140** | 3,385,465 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIT** | | | |
| Bank overdraft | | **29,880** | - |
| Bank indebtedness | *6* | **650,000** | 850,000 |
| Accounts payable and accrued liabilities | *7* | **2,902,621** | 2,054,052 |
| Provision for product returns | | **55,217** | 51,909 |
| Loans | *8* | **486,205** | 95,843 |
| Convertible debentures | *8* | **1,073,812** | - |
| **Total current liabilities** | | **5,197,735** | 3,051,804 |
| Long-term loans | *8* | **579,781** | 952,915 |
| Convertible debentures | *8* | **-** | 506,790 |
| Defined benefit obligation | | **236,410** | 241,462 |
| **Total non-current liabilities** | | **816,191** | 1,701,167 |
| **Total liabilities** | | **6,013,926** | 4,752,971 |
| Share capital | *10* | **4,593,163** | 4,659,149 |
| Contributed surplus | | **300,156** | 266,888 |
| Deficit | | **(7,089,781)** | (6,101,237) |
| Accumulated other comprehensive loss | | **(192,324)** | (192,306) |
| **Total shareholders' deficit** | | **(2,388,786)** | (1,367,506) |
| **Total liabilities and shareholders' deficit** | | **3,625,140** | 3,385,465 |

*Related Party Transactions (note 16); Subsequent events (note 20)*

These unaudited condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 25, 2019

"Steven Saviuk "______________________, Director "Richard Mackay"_____________, Director

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

# Valeo Pharma Inc.
## (Unaudited) Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
*For the three months ended January 31st,*

| | Note | **2019**<br>**$** | 2018<br>$ |
|---|---|---|---|
| **Revenues** | *12* | **1,832,229** | 245,546 |
| **Cost of Sales** | | **(1,546,107)** | (108,357) |
| **Gross Profit** | | **286,122** | 137,189 |
| Selling, general and administrative expenses | *13* | **(1,268,180)** | (686,053) |
| Financial expenses | *14* | **(71,671)** | (65,693) |
| Other income | *15* | **65,185** | 2,000 |
| | | **(1,274,666)** | (749,746) |
| **Net loss before income taxes** | | **(988,544)** | (612,557) |
| **(Provision for) recovery of income taxes** | | | |
| Current | | **-** | - |
| **Net loss for the year** | | **(988,544)** | (612,557) |
| **Other comprehensive loss** | | | |
| Exchange differences on translating foreign operations | | **(18)** | 6,085 |
| **Total comprehensive loss** | | **(988,562)** | (606,472) |
| **Loss per share:** | | | |
| Basic and diluted | | **(0.02)** | (0.02) |
| **Weighted average number of shares outstanding** | | **44,903,008** | 31,400,000 |

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

# Valeo Pharma Inc.
## (Unaudited) Condensed Interim Consolidated Statements of Changes in Shareholders' Deficit
*For the three months ending January 31st,*

| | Note | Share Capital | | | Accumulated OCI | | | |
|---|---|---|---|---|---|---|---|---|
| | *Note* | Common Shares $ | Deficit $ | Contributed surplus $ | Defined benefit plan $ | Foreign exchange translation $ | Total OCI $ | Total $ |
| As at October 31, 2017 | | 413,031 | (3,018,748) | 189,249 | (155,697) | (30,369) | (186,066) | (2,602,534) |
| Total comprehensive loss | | | | | | | | |
| Net loss | | - | (612,557) | - | - | - | - | (612,557) |
| Other comprehensive income | | - | - | - | - | 6,086 | 6,086 | 6,086 |
| | | - | (612,557) | - | - | 6,086 | 6,086 | (606,471) |
| Share based compensation | | - | - | 2,071 | - | - | - | 2,071 |
| As at January 31, 2018 | | 413,031 | (3,631,305) | 191,320 | (155,697) | (24,283) | (179,980) | (3,206,934) |
| **As at October 31, 2018** | | **4,659,149** | **(6,101,237)** | **266,888** | **(159,406)** | **(32,900)** | **(192,306)** | **(1,367,506)** |
| **Total comprehensive loss** | | | | | | | | |
| **Net loss** | | **-** | **(988,544)** | **-** | **-** | **-** | **-** | **(988,544)** |
| **Share issue costs** | | **(65,986)** | **-** | **-** | **-** | **-** | **-** | **(65,986)** |
| **Other comprehensive loss** | | **-** | **-** | **-** | **-** | **(18)** | **(18)** | **(18)** |
| | | **(65,986)** | **(988,544)** | **-** | **-** | **(18)** | **(18)** | **(1,054,548)** |
| **Share based compensation** | | **-** | **-** | **33,268** | **-** | **-** | **-** | **33,268** |
| **As at January 31, 2019** | | **4,593,163** | **(7,089,781)** | **300,156** | **(159,406)** | **(32,918)** | **(192,324)** | **(2,388,786)** |

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

# Valeo Pharma Inc.

## (Unaudited) Condensed Interim Consolidated Statements of Cash Flows

*For the three months ended January 31st,*

| | Note | **2019** | 2018 |
|---|---|---|---|
| | | **$** | $ |
| **Operating activities:** | | | |
| Net loss from operations | | **(988,544)** | (612,557) |
| **Add (deduct) items not affecting cash:** | | | |
| Depreciation of property and equipment | | **9,539** | 9,493 |
| Amortization of intangible assets | *5* | **3,102** | - |
| Provision for sales returns | | **24,927** | - |
| Share based compensation | | **33,268** | 2,071 |
| Interest expense | | **34,250** | 46,906 |
| Net change in non-cash operating working capital | | **675,696** | 116,229 |
| Cash used by operations | | **(207,762)** | (437,858) |
| **Investing activities:** | | | |
| Acquisition of property and equipment | | **(8,720)** | (7,007) |
| Acquisition of intangible assets | | **(110,264)** | (28,186) |
| Cash used by investing activities | | **(118,984)** | (35,193) |
| **Financing activities:** | | | |
| Decrease in bank indebtedness | | **(200,000)** | (10,000) |
| Increase in bank overdraft | | **29,880** | 36,217 |
| Increase in convertible debentures | *8* | **550,000** | 449,000 |
| Deferred share costs | | **(39,500)** | - |
| Funding of defined benefit plan | | **(5,052)** | (2,600) |
| Cash provided by financing activities | | **335,328** | 472,617 |
| **Foreign exchange loss on cash** | | **(20,051)** | (2,843) |
| **Decrease in cash** | | **(11,469)** | (3,277) |
| Cash, beginning of year | | **11,469** | 3,277 |
| **Cash, end of period** | | **-** | - |

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

## 1. Presentation of Financial Statements

### Description of the Business

Valeo Pharma Inc. (the "Corporation") is incorporated under the Canada Business Corporations Act and the head office, principal place of business and registered office is located at 16667 Hymus Blvd., Kirkland, Quebec, Canada.

The Corporation's ultimate parent, Manitex Capital Inc. ("Manitex") is incorporated under the Canada Business Corporations Act. Manitex is listed on the TSX Venture Exchange under the symbol MNX and the head office, principal place of business and registered office is located at 16667 Hymus Blvd., Kirkland, Quebec, Canada.

The Corporation is a pharmaceutical company that acquires and markets speciality products and also markets and distributes third-party pharmaceutical products. The Corporation's wholly-owned subsidiary Valeo Pharma Corp ("Valeo USA") is located in the United States (not active) and VPI Pharmaceuticals Inc. ("VPI") is located within the Corporation's premises.

### Statement of Compliance

These unaudited condensed interim consolidated financial statements of the Corporation have been prepared for the three months ended January 31, 2019 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim 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 condensed interim 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 the follow the same accounting policies and methods of application.

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Valeo Pharma Inc. have been prepared by and are the responsibility of the Corporation's management. The unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and reflect management's best estimates and judgment based on information currently available. The Corporation's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements.

These unaudited condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 25, 2019.

## 2. Summary of Significant Accounting Policies

### a) Basis of consolidation

These unaudited condensed interim financial statements consolidate those of the Corporation and its wholly-owned subsidiaries (the "Group"). All subsidiaries have a quarterly reporting date of January 31st. 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 year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

### b) Basis of measurement

These condensed interim 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 January 31, 2019, there was a consolidated working capital deficiency of $3,993,186 (October 31, 2018 – $2.007,073) and a consolidated loss of $988,544 for the three months ended January 31, 2019 (consolidated loss of $612,557 for the three months ended January 31, 2018).

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

### b) Basis of measurement – *cont'd*

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. These consolidated 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. Management anticipates that commercialization of new products and other revenue will provide operating revenue that could contribute to working capital requirements.

### 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 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 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.

| **Asset / Liability** | 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 |

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

***c) Recently adopted accounting policies –*** *cont'd*

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 Corporaion'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.

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

| | Measurement | **January 31 2019 $** | October 31 2018 $ |
|---|---|---|---|
| Financial assets: | | | |
| Cash | Fair value through profit or loss | **-** | 11,469 |
| Trade receivables | Amortized Cost | **840,948** | 730,761 |
| Other receivables | Amortized Cost | **198,741** | 153,364 |
| Financial liabilities: | | | |
| Bank overdraft | Amortized cost | **29,880** | - |
| Bank indebtedness | Amortized cost | **650,000** | 850,000 |
| Accounts payable and accrued liabilities | Amortized cost | **2,902,621** | 2,054,052 |
| Loans | Amortized cost | **486,205** | 95,843 |
| Long term loans | Amortized cost | **579,781** | 952,915 |
| Convertible debentures | Amortized cost | **1,073,812** | 506,790 |

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.

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

### *c) Recently adopted accounting policies – cont'd*

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 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 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 three months ended January 31, 2019.

## 4. Other Receivables

Other receivables presented in the following table are non-interest bearing and due on demand.

| | **January 31, 2019**<br>**$** | October 31, 2018<br>$ |
|---|---|---|
| Receivables from others | **43,250** | 121,536 |
| Sales taxes receivable | **124,701** | 31,828 |
| Receivable from a director | **30,790** | - |
| | **198,741** | 153,364 |

## 5. Intangible Assets

Intangible assets are composed of:

| | **Submission costs** | **License fee (i)** | **Total** |
|---|---|---|---|
| | $ | $ | $ |
| Balance as at October 31, 2018 | **983,621** | **1,000,000** | **1,983,621** |
| Additions | **110,264** | **-** | **110,264** |
| Amortization | **(3,102)** | **-** | **(3,102)** |
| **Balance as at January 31, 2019** | **1,090,783** | **1,000,000** | **2,090,783** |

(i) The Corporation entered into a 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 $1,000,000 and is further obligated to pay additional licensing milestone fees of $1,000,000, royalty fees on sales and sales milestone payments. Amortization of licensing fees will be recognized upon commencement of commercial activities of the product.

## 6. Operating Loan

On January 23, 2017, the Corporation entered into a new agreement with its present lender for a revolving demand credit facility. Borrowed amounts outstanding under this Facility should, at all times, be the lesser of:

- $1,400,000 and
- The total of
  - the assigned credit balances for the Corporation;
  - 80% of accounts receivables of the Corporation, net of over 90-day accounts, contra accounts, related accounts and all other accounts not valued by the Bank;
  - Up to $400,000 of assigned marketable securities held by the ultimate Parent of the Corporation subject to the Bank's standard margin.

Borrowing under the credit facility will bear interest at prime plus 0.75% per annum. As security for the credit facility, the Corporation has pledged all its assets. Various guarantees have been provided to the lender by the ultimate Parent, including an investment portfolio balance fair valued at $400,000.

## 7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are composed of:

| | **January 31, 2019**<br>**$** | October 31, 2018<br>$ |
|---|---|---|
| Accounts payable | **2,595,918** | 1,559,262 |
| Payables to related parties (i) | **32,089** | 87,538 |
| Accrued liabilities | **274,614** | 407,252 |
| | **2,902,621** | 2,054,052 |

| | | |
|---|---|---|
| *(i) Included in payables to related parties* | | |
| Compensation owed to a person who is an officer and minority shareholder | **30,000** | 20,000 |
| Consulting fees owed to a company controlled by an officer | **-** | 11,568 |
| Expenses owed to persons who are officers and employees, incurred in the normal course of business | **2,089** | 55,970 |

## 8. Loans, Long Term Loans and Convertible Debentures

Loans consist of:

| | **January 31, 2019**<br>**$** | October 31, 2018<br>$ |
|---|---|---|
| Loan – unsecured, due to former shareholders, accrues interest at 6% per annum, with no set terms of repayment and a maturity date of March 31, 2019. Includes accrued interest of $4,072. | **97,240** | 95,843 |
| Loan – secured, due to ultimate parent, accrues interest at 5% per annum, with no set terms of repayment and a maturity date of November 1, 2019. Includes accrued interest of $14,068. | **388,965** | - |
| | **486,205** | 95,843 |

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

Convertible debentures consist of:

| | **January 31, 2019** *(Current)* **$** | October 31, 2018 *(Non-Current)* **$** |
|---|---|---|
| Convertible debenture – unsecured due to a shareholder, accrues interest at 8% per annum, with no set terms of repayment and a maturity date of November 30, 2019. Includes accrued interest of $20,540. | **520,540** | 506,790 |
| Convertible debenture – unsecured, accrues interest at 5% per annum with no set terms of repayment and a maturity date of January 31, 2020. Includes accrued interest of $3,273. | **553,272** | - |
| | **1,073,812** | 506,790 |

During the 1st quarter 2019, the Corporations issued $550,000 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. Any unpaid interest payments will accrue and be added to the principal amount of the debenture. Each $1,000 debenture is convertible into 2,500 class A shares of the Corporation and represent a conversion price of $0.40 per share. The debentures have a conversion per common share and will be convertible into class A shares at the option of the holder at any time prior to the close of business on the earlier of (i) the last business day immediately preceding the maturity date and (ii) the date fixed for redemption. The debentures automatically convert into class A shares at the date the shares are accepted for trading on a recognized stock exchange. At the time of issuance of the convertible debenture, it was determined by management that the effective interest rate applicable to the debentures would be the same as the contracted interest rate of 5%. Therefore, the fair value of the conversion feature is nil.

Long term loans consist of:

| | **January 31, 2019** **$** | October 31, 2018 **$** |
|---|---|---|
| Loans – unsecured, due to ultimate parent, accrues interest at 8% per annum, with no set terms of repayment and a maturity date of March 31, 2020. Includes accrued interest of $13,274. | **410,756** | 402,805 |
| Loan – secured, due to ultimate parent, accrues interest at 5% per annum, with no set terms of repayment and a maturity date of November 1, 2019. Includes accrued interest of $14,068. | **-** | 384,279 |
| Loan – unsecured, due to shareholders, accrues interest at 8% per annum, with no set terms of repayment and a maturity date of March 31, 2020. Includes accrued interest of $9,308. | **169,025** | 165,831 |
| | **579,781** | 952,915 |

**9. Income Taxes**

Deferred tax assets have not been recognized in respect of deductible temporary difference of approximately $267,500 which arise from non-capital losses incurred in the three-month period to January 31, 2019.

The Corporation has accumulated non-capital losses of $3,961,998 for income tax purposes in Canada and US $93,218 for income tax purposes in the United States, which are available to be applied against future taxable income and expire as follows:

## 9. Income Taxes – *cont'd*

| | CDN $ | US $ |
|---|---|---|
| 2029 | - | 32,839 |
| 2030 | - | 1,764 |
| 2031 | - | 10,873 |
| 2032 | - | 42,421 |
| 2033 | - | 2,589 |
| 2034 | - | - |
| 2035 | 2,697 | - |
| 2036 | 20,250 | 916 |
| 2037 | 1,191,411 | 709 |
| 2038 | 2,747,640 | 207 |

## 10. Share Capital

(a) The Corporation was incorporated under the Canada Business Corporations Act on March 27, 2003.

(b) Authorized:

Unlimited number of Class A shares, voting, participating with no par value;

| | Class A | |
|---|---|---|
| | **#** | **$** |
| As at October 31, 2018 | 44,903,008 | 4,659,149 |
| **Prospectus costs** | **-** | **(65,986)** |
| **As at January 31, 2019** | **44,903,008** | **4,593,163** |

## 11. Other Cash Flow Information

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

| | Three months ending | |
|---|---|---|
| | **January 31, 2019** | January 31, 2018 |
| | **$** | $ |
| (Increase) decrease in trade receivables | **(110,187)** | 33,434 |
| (Increase) decrease in prepaid expenses | **(15,723)** | 3,286 |
| Increase in other receivables | **(45,377)** | (39,245) |
| Increase in accounts payable and accrued liabilities | **868,602** | 118,754 |
| Decrease in sales return provision | **(21,619)** | - |
| | **675,696** | 116,229 |

## 12. Net Product Revenues

| | Three months ending | |
|---|---|---|
| | **January 31, 2019** **$** | January 31, 2018 $ |
| Net sales revenue | **1,832,229** | 121,040 |
| Agency revenue | **-** | 124,506 |
| | **1,832,229** | 245,546 |

*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. Selling, General and Administrative Expenses

| | | Three months ending | |
|---|---|---|---|
| | ***Note*** | **January 31, 2019** **$** | January 31, 2018 $ |
| Depreciation of property and equipment | | **9,539** | 9,493 |
| Amortization of intangible assets | *5* | **3,102** | - |
| Administrative expenses | | **304,404** | 222,113 |
| Selling and marketing expenses | | **396,757** | 23,016 |
| Product development costs | | **10,625** | - |
| Employee compensation | | **510,485** | 429,360 |
| Share based compensation | | **33,268** | 2,071 |
| | | **1,268,180** | 686,053 |

## 14. Financial Expenses

| | Three months ending | |
|---|---|---|
| | **January 31, 2019** **$** | January 31, 2018 $ |
| Interest on loans | **17,228** | 12,328 |
| Interest on debentures | **17,022** | 34,578 |
| Foreign exchange fluctuation | **1,046** | 4,378 |
| Credit facility costs, cash discounts and bank charges | **36,375** | 14,409 |
| | **71,671** | 65,693 |

## 15. Other Income

| | Three months ending | |
|---|---|---|
| | **January 31, 2019** **$** | January 31, 2018 $ |
| Rental income | **8,250** | 2,000 |
| Service income | **56,935** | - |
| | **65,185** | 2,000 |

Rental income is earned as a result of sub-lease arrangements at the Corporation’s head office. Services charged to a company renting office space at the Corporation’s head office make up service income.

### 16. Related Party Transactions

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

| | **January 31, 2019** | January 31, 2018 |
|---|---|---|
| | **$** | $ |
| Key management salary and benefits | **204,960** | 217,428 |
| Directors and employee stock option compensation | **33,268** | 2,071 |
| Consulting fee paid to a company controlled by an officer | **45,000** | - |

### 17. Financial Instruments

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

| | **January 31, 2019** | | |
|---|---|---|---|
| | **Fair value through profit and loss** | **Fair value through other comprehensive income** | **Amortized cost** |
| Financial assets: | | | |
| Trade receivables | - | - | **840,948** |
| Other receivables | - | - | **198,741** |
| | - | - | **1,039,689** |

| | **January 31, 2019** | | |
|---|---|---|---|
| | **Fair value through profit and loss** | **Fair value through other comprehensive income** | **Amortized cost** |
| Financial liabilities: | | | |
| Bank overdraft | **-** | - | **29,880** |
| Bank indebtedness | **-** | | **650,000** |
| Accounts payable and accrued liabilities | **-** | - | **2,902,621** |
| Loans | **-** | - | **486,205** |
| Long term loans | **-** | - | **579,781** |
| Convertible debentures | **-** | - | **1,073,812** |
| | **-** | - | **5,722,299** |

| | October 31, 2018 | | |
|---|---|---|---|
| | Carrying Value | | |
| | FVTPL | Loans and receivables | Fair Value |
| | Level 1 | Level 3 | |
| Financial Assets | | | |
| Cash | 11,469 | - | 11,469 |
| Trade receivables | - | 730,761 | 730,761 |
| Other receivables | - | 153,364 | 153,364 |
| | 11,469 | 884,125 | 895,594 |

**17. Financial Instruments –** *cont'd*

| October 31, 2018 | | | |
|---|---|---|---|
| | Carrying Value | | |
| | FVTPL | Other financial liabilities | Fair Value |
| | Level 1 | Level 3 | |
| Financial Liabilities | | | |
| Bank indebtedness | - | 850,000 | 850,000 |
| Accounts payable and accrued liabilities | - | 2,054,052 | 2,054,052 |
| Loans | - | 95,843 | 95,843 |
| Long-term loan | - | 952,915 | 952,915 |
| Convertible debt | - | 506,790 | 506,790 |
| | - | 4,459,600 | 4,459,600 |

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 January 31, 2019 and October 31, 2018, the Corporation has carried at fair value financial instruments in Level 1. At January 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.

The three levels are defined as follows:
a) Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.
b) Level 2: Fair value is based on inputs other than quoted prices included within Level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
c) 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 Valuation** | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
|---|---|---|---|---|
| Assets measured at fair value | | | | |
| None | - | - | - | - |

| | **Date of Valuations** | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
|---|---|---|---|---|
| Assets measured at fair value | | | | |
| Cash | October 31 2018 | 11,469 | - | - |

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.

## 18. Financial Risk Factors

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. 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 January 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 January 31, 2019, 93% are current (less than 30 days). As at January 31, 2018, three customers account for 88% of the trade receivables. The Corporation believes that there is no unusual exposure associated with the collection of these receivables.

(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 January 31, 2019.

### 18. Financial risk factors – *cont'd*

(c) Liquidity risk – *cont'd*

| | 2019 $ | | | | |
|---|---|---|---|---|---|
| | **Less than 30 days** | **30 days to 3 months** | **3 months to 12 months** | **More than 12 months** | **Total** |
| Financial Liabilities | | | | | |
| Bank overdraft | **29,880** | **-** | **-** | **-** | **29,880** |
| Bank indebtedness | **-** | **-** | **650,000** | **-** | **650,000** |
| Accounts payable and accrued liabilities | **1,389,948** | **1,184,650** | **328,023** | **-** | **2,902,621** |
| Loans | **-** | **97,240** | **388,965** | **-** | **486,205** |
| Long-term loan | **-** | **-** | **-** | **579,781** | **579,781** |
| Convertible debt | **-** | **-** | **1,073,812** | **-** | **1,073,812** |
| | **1,419,828** | **1,281,890** | **2,440,800** | **579,781** | **5,722,299** |

### 19. Capital Structure Financial Policy

The Corporation considers capital to be composed of convertible debt and long-term debt. At January 31, 2019, the Corporation has $579,781 of long-term debt owed to the ultimate Parent company and shareholders and $1,073,812 of convertible debt.

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 January 31, 2019 the Corporation is not subject to any externally imposed capital requirements.

### 20. Subsequent Events

(i) In July 2018, Valeo launched a non-brokered private placement of convertible debentures for maximum gross proceeds of up to $4,000,000. The debentures bear interest at a rate of 8% per annum. Each $1,000 principal amount of debentures are convertible into 2,500 shares representing a price per share equal to $0.40. Prior to the listing of the Corporation's shares on the CSE, a total of $1,400,000 was raised as part of this non-brokered private placement. Following the end of the quarter, all outstanding Debentures and corresponding accrued interest were converted into shares at the conversion price, representing a total 3,567,158 shares.

(ii) On February 15, 2019 the shares of the Corporation were approved for listing on the Canadian Securities Exchange. Trading of the shares commenced February 20, 2019.

(iii) On February 25, 2019 the Corporation amended its current lease agreement. The term of the lease was extended for a five-year period commencing on September 1, 2019 and expiring on August 31, 2024. The total lease area remains at 16,744 square feet. During the extension term the base rent in the first year is $5.50 per square foot; $5.60 in the second year, $5.70 in the third year, $5.80 in the fourth year and in the fifth year, $5.50 per square foot. Through out the extension term the Corporation will pay additional rent including its proportionate share of operating costs and taxes.