

# **VALEO PHARMA INC.**

Annual Report

October 31, 2018



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND TWELVE-MONTH PERIODS ENDED OCTOBER 31, 2018**

### **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 and twelve-month periods ending October 31, 2018 was prepared by management from information available as at February 28, 2019, should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended October 31, 2018 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", 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.

### **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 product categories; branded prescription products, and niche hospital injectable products. Such categories 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 category, 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 category 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 Year-end 2018, Valeo Pharma's product portfolio included:

- **Onstryv (Safinamide)**  
Licensed from *Zambon S.p.A.* ("Zambon"), this product is used to treat idiopathic Parkinson's disease as an add-on for people taking a stable dose of Levodopa (L-dopa) alone or in combination with other Parkinson drugs, to help with "off" episodes when the standard of care (L-dopa) stops working. The submission for Safinamide has been approved by *Health Canada* on January 10<sup>th</sup>, 2019 (see "Subsequent Events"). We expect to start commercializing this product in the third quarter of fiscal year 2019.
- **Utrogestan**  
Licensed from *Besins Healthcare*, located in Monaco, this product is a micronized progesterone indicated for luteal phase support during in vitro fertilization cycles. The product has already received *Health Canada* approval. The Corporation is expecting to start commercialization of Utrogestan in the third quarter of fiscal year 2019.
- **Synacthen**  
Licensed for Canada from Mallinckrodt Pharmaceuticals ("Mallinckrodt"), a specialty neurology therapeutic with 17 approved indications. Valeo currently markets this product for severe multiple sclerosis, and for the treatment of gout, to approximately 100 neurology specialists across Canada.
- **M-Eslon and M-Ediat**  
Licensed from Ethypharm Inc. ("Ethypharm"), an extended release morphine sulphate used for pain management. Under the initial agreement signed in August 2015 with Ethypharm, Valeo was acting as an agent and for that reason, the sale of products was recorded on a net basis. Effective May 1, 2018, the contract was amended, and the Corporation has taken over more responsibilities in relation to the sales of the Ethypharm products. Valeo is now acting as the principal in the sales of these products and consequently revenues are now accounted for on a gross basis.
- **Ethacrynate Sodium**  
Developed by Valeo, the product is a loop diuretic used to treat high blood pressure and the swelling caused by diseases like congestive heart failure, liver failure, and kidney failure. Unlike other loop diuretics, Ethacrynate Sodium is not a sulfonamide and thus, its use is not contraindicated in those with sulfa allergies. Having funded the complete development of the product, Valeo owns the worldwide rights to the product. Approval to market the product in Canada has been received in the third quarter of fiscal year 2018, and the Corporation has initiated commercialization of the product. The Corporation has entered into a strategic arrangement with Princeton Biopharma, LLC. US based company, to commercialize the product in the United States on its behalf, via a distribution partner. Princeton and Valeo have filed a dossier with the FDA in order to obtain marketing approval. Approval to market the product is expected in fiscal year 2019. Valeo has developed the formulation and has the worldwide rights to this product except for Italy.

Valeo continues to search for innovative products within its therapeutic 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 is often in excess of 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. This 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.

### Other 2018 Corporate Highlights

#### Filing of a Long-Form Preliminary Prospectus

On September 27, 2018, the Corporation filed a preliminary non-offering long form prospectus for the listing of its common shares on a Canadian Exchange (See "Subsequent Events").

#### Statement of Compliance

The financial statements included in this MD&A for the year ending October 31, 2018 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.

#### 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 9 - Financial instruments* - effective for annual periods beginning on or after January 1, 2018.
- *IFRS 15 - Revenue from contracts with customers* - effective for annual periods beginning on or after January 1, 2018.
- *IFRS 16 - Leases* - effective for annual periods beginning on or after January 1, 2019.

Based on its current assessment, the Corporation does not anticipate any material impact on its consolidated financial statements as a result of the application of *IFRS 9*.

The Corporation has assessed the impact that *IFRS 15* may have on the Corporation's consolidated financial statements. Based on its current assessment, the Corporation does not anticipate any material impact on the consolidated financial statements as a result of the application of this standard. As a result of the application of this new standard, where a right of return exists, the Corporation will record an asset and a refund liability when revenue is recorded.

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.

#### 2018 Financial Overview

- Total revenues were \$4,381,681 as compared to \$1,277,489 in the prior year, representing a 243% increase.
- Net Product revenues were \$4,148,630 as compared to \$796,621 in the prior year, representing a 421% increase.
- Net loss after taxes is \$2,586,963 (excluding a recovery of balance of sale of \$150,000) compared to a loss after taxes of \$1,852,187 (excluding an impairment on the balance of sale of \$1,766,598).

## VALEO PHARMA INC.

### Selected Annual Financial Data

The following table sets forth financial information relating to the Corporation for the years indicated and should be read in conjunction with the 2018 and 2017 audited consolidated financial statements.

<b>Consolidated Statements of Loss</b>	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
Revenues	4,381,681	1,277,489	3,104,192	243%
Cost of Sales	3,548,714	747,087	2,801,627	375%
<b>Gross Profit</b>	<b>832,967</b>	<b>530,402</b>	<b>302,565</b>	<b>57%</b>
Selling, general and administrative ("SG&A") expenses	3,261,316	3,178,160	83,156	3%
Financial expenses (income)	265,156	136,776	128,380	94%
Other income	(147,851)	(51,134)	(96,717)	189%
Impairment of investment in associate	4,592	-	4,592	100%
(Recovery) impairment on balance of sale (note 1)	(150,000)	1,766,598	(1,916,598)	(108%)
	<b>3,233,213</b>	<b>5,030,400</b>	<b>(1,797,187)</b>	<b>(36%)</b>
<b>Loss before income taxes</b>	<b>(2,400,246)</b>	<b>(4,499,998)</b>	<b>2,099,752</b>	<b>(47%)</b>
(Provision for) recovery of income taxes	(36,717)	881,213	(917,930)	(104%)
<b>Net loss for the year</b>	<b>(2,436,963)</b>	<b>(3,618,785)</b>	<b>1,181,822</b>	<b>(33%)</b>
<b>Other comprehensive loss</b>				
Exchange differences on translating foreign operations	(2,531)	5,235	(7,766)	(148%)
Defined benefit plan, net actuarial loss	(3,709)	(27,121)	23,412	(86%)
<b>Total comprehensive loss</b>	<b>(2,443,203)</b>	<b>(3,640,671)</b>	<b>1,197,468</b>	<b>(33%)</b>
<b>Loss per share</b>				
Basic and diluted	(0.07)	(0.12)	0.05	41%
<b>Weighted average number of shares outstanding (i)</b>	<b>35,653,069</b>	<b>31,400,000</b>	<b>4,253,069</b>	<b>14%</b>

(i) The outstanding number of shares presented for 2017 are reflected post-split

**Note 1** . On August 22, 2014, the Corporation sold most of its product portfolio, related inventory and certain other assets to Valeant Canada LP. Subject to various adjustments provided in the Sales Agreement, the purchase price was set at \$25.6 million, including a \$7 million balance of sale based on the commercial performance of the product sold (the "Valeant Balance of Sale"). In fiscal-year 2017, an impairment charge of \$1.8 million was recorded to better reflect the expected recovery of the balance of sale. In the second quarter of 2018, a final payment of \$0.4 million was received.

The following table provides a reconciliation of net loss to EBITDA for the years ended October 31, 2018 and October 31, 2017.

	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
<b>Net loss for the year</b>	<b>(2,436,963)</b>	<b>(3,618,785)</b>	<b>1,181,822</b>	<b>(33%)</b>
<i>Add (deduct)</i>				
Provision for income (recovery of) income taxes	36,717	(881,213)	917,930	(104%)
Interest expense	173,848	148,369	25,479	17%
Depreciation of property and equipment	39,304	40,124	(820)	(2%)
Amortization of intangible assets	5,170	-	5,170	100%
<b>Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA(L))</b>	<b>(2,181,924)</b>	<b>(4,311,505)</b>	<b>2,129,581</b>	<b>(49%)</b>

## VALEO PHARMA INC.

### Selected Annual Financial Data – cont'd

<b>Consolidated Balance Sheet Highlights</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Cash	<b>11,469</b>	3,277
Current assets	<b>1,044,731</b>	1,391,681
Total assets	<b>3,385,465</b>	3,399,699
Current liabilities	<b>3,051,804</b>	2,291,773
Long-term loans, debentures and pension obligation	<b>1,701,167</b>	3,710,460
Share Capital	<b>4,659,149</b>	413,031
Contributed Surplus	<b>266,888</b>	189,249
Deficit	<b>(6,101,237)</b>	(3,018,748)

### Revenue Analysis

Total revenues in 2018 reached \$4,381,681 compared to \$1,277,489 in 2017.

	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
Net Product revenue	<b>4,148,630</b>	796,621	3,352,009	421%
Agency revenue	<b>233,051</b>	480,868	(247,817)	-52%
Total Revenues	<b>4,381,681</b>	1,277,489	3,104,192	243%
Cost of sales	<b>3,548,714</b>	747,087	2,801,627	375%
Gross Profit	<b>832,967</b>	530,402	302,565	57%
Gross Profit %	<b>19.00%</b>	41.5%	(23%)	-54%
<b>Additional Information</b>				
Net contribution from Product Sales	599,916	49,534	550,382	1111%
Net margin from Product Sales	14.5%	6.2%	8%	134%

In 2017 and 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 has since taken over more responsibilities in relation to the sales of M-Eslon and M-Ediat.

The Corporation has determined that it is now acting as the principal in the sales of these products. As such, revenues from the sale of M-Eslon and M-Ediat 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. Due to the change in the Ethypharm contract, Product Revenues have increased significantly and represented a 421% increase over the prior fiscal year, while agency revenues have decreased by 52% during the same period. Revenues in 2018 also reflected sales of Ethacrynate Sodium launched in Canada in May 2018.

Subsequent to the change in the Ethypharm contract, gross profit has increased by 57% over the preceding year, and the net contribution from product sales has increased by 1111%.

### Operating Expenses

On a corporate overview the SG&A expenses have remained stable over the last fiscal when compared to the prior year at \$3,261,316 compared to \$3,178,160 representing a 3% increase. The SG&A expenses have remained stable despite 1) the additional costs for preparing for the Corporation's filing in September 2018 of a Preliminary Non-Offering Long-Form Prospectus for listing the Corporation's shares on a Canadian Exchange, 2) the costs for filing and supporting the Onstryv regulatory approval, and 3) the costs associated with preparing for the anticipated approval and launch of Onstryv, and Utrogestan.

## VALEO PHARMA INC.

### Selected Annual Financial Data – cont'd

#### Financial Expenses

In the current fiscal year, financial expenses were \$265,156 compared to \$136,776 in 2017. 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. In 2017, the corresponding amounts included an income of \$49,950 on the balance of sale (nil in 2018).

#### Other Income

Other income for 2018 increased by 189% over 2017 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 in offering back-office administrative and third-party consulting support to virtual companies that are sub-leasing part of its premises. As a result of such arrangements, Valeo rental and consulting revenues increased from \$51,134 in 2017 to \$147,851 in 2018.

#### Benefit Plan

In 2010, the Corporation entered into a transaction with a sister-company ("Baralex") controlled by the Valeo shareholders. Under the terms of the said transaction, some employees of Baralex were transferred to Valeo and the Corporation agreed to take over the Baralex pension plan in exchange for a nominal amount. The most recent actuarial valuation of the defined benefit plan as of December 31, 2015 established the actuarial deficit at \$378,140. The required funding for calendar year 2018 was \$20,208 and the required funding in 2019 will be \$20,208.

#### Provision for Income Taxes

In the current fiscal year, the income taxes reflect a provision of \$36,717 as compared to a recovery of \$881,213 in fiscal 2017. The Corporation also has \$3,942,564 of accumulated non-capital losses that it can carry-forward to apply against future taxable income in Canada; these carry-forward losses expire in the years 2035-2038. The Corporation did not recognize the tax benefit of these losses for income tax purposes.

The Corporation also has US\$93,218 of accumulated non-capital losses 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 these losses has not been recognized in the financial statements as the subsidiary is not active at the present time.

### Summary of Quarterly Results

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net Product Revenue (Note 1)	1,750,206	2,110,559	166,825	121,040	159,800	213,566	237,615	185,640
Agency revenue	-	-	108,542	124,509	111,377	119,327	124,219	125,945
Cost of goods sold	1,603,648	1,676,692	160,017	108,357	142,327	188,145	249,767	166,849
Gross Profit (Note 2)	146,558	433,867	115,350	137,192	128,850	144,748	112,067	144,736
SG&A expense	1,084,981	729,919	752,886	693,530	790,264	734,478	909,934	743,483
Financing expense	45,561	97,202	56,700	65,693	52,635	38,980	29,246	15,915
Other (income) expense	(59,535)	(64,609)	(14,232)	(9,475)	49,208	(8,855)	(65,440)	(26,047)
Impairment of Investment in Associate	4,592	-	-	-	-	-	-	-
(Recovery) impairment on balance of sale (Note 3)	-	-	(150,000)	-	856,348	(10,226)	920,476	733,351
Net loss before taxes	(929,041)	(328,645)	(530,004)	(612,556)	(1,619,605)	(609,629)	(1,682,149)	(588,615)
Recovery of (provision for) income tax	-	5,327	(42,044)	-	395,090	145,000	181,123	160,000
Net loss for the quarter	(929,041)	(323,318)	(572,048)	(612,556)	(1,224,515)	(464,629)	(1,501,026)	(428,615)

**Summary of Quarterly Results – cont'd**
**Notes**

1. Net product revenues for the fiscal years 2017 and 2018 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 fourth quarter of 2018 were higher as a result of increased professional and consulting fees, bonus accruals and stock compensation expenses.
3. The Valeant Balance of Sale was re-calculated during the three-year earn out period, based on bi-yearly actual sales profit calculations and up-dated sales forecasts supplied to Valeo by the purchaser.

**Cash Flows, Liquidity and Capital Resources**
**Cash Flows**

<b>Sources and Uses of Cash</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities:</b>		
Net loss from operations	(2,436,963)	(3,618,785)
(Recovery) impairment of balance of sale	(150,000)	1,766,598
Other Items not affecting cash	461,549	122,208
Changes in non-cash working capital	791,965	498,415
Cash used in operations	(1,333,449)	(1,231,564)
<b>Investing activities:</b>		
Cash provided (used) provided by investing	62,890	(1,060,173)
<b>Financing activities:</b>		
Cash provided by financing	1,283,132	2,082,830
Foreign exchange loss (gain) on cash	(4,381)	6,100
Increase (decrease) in cash	8,192	(202,807)
Cash, beginning of year	3,277	206,084
<b>Cash, end of year</b>	<b>11,469</b>	<b>3,277</b>

**(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 fiscal year 2018, excluding the change in non-cash working capital was \$2,125,414 for 2018 compared to \$1,729,979 for fiscal year 2017. Major items and non-cash included in operations in 2018 were: (i) 2,436,963 net loss from operations (down 33% from 2017), (ii) \$77,639 of share-based compensation compared to \$82,389 for 2017; (iii) \$150,000 of recovery on the balance of sale receivable compared to an impairment of \$1,766,598 in 2017; (iv) \$84,838 write-down of inventory versus nil in 2017.

Changes in non-cash working capital components provided \$791,965 of cash in 2018 compared to providing \$498,415 in 2017.

**(b) Investing activities**

Cash provided by investing activities in 2018 was \$62,890 as compared to cash used of \$1,060,173 in 2017. In the last fiscal year, cash of \$308,438 was invested to acquire intangible assets, namely the cost of filing our Parkinson's drug Onstryv with Health Canada. In fiscal year 2017, the Corporation invested \$1,233,945 to acquire intangible assets, mainly by investing in the development of Ethacrynate Sodium as well as to acquire the Canadian commercial rights to Onstryv from its partner, Zambon. Pursuant to the terms of the agreement, the Corporation paid an upfront fee of \$1,000,000.

There was also a cash inflow of \$351,108 in 2018 from the Valeant Balance of Sale as compared to \$161,244 in 2017.

**Cash Flows, Liquidity and Capital Resources – cont'd****(c) Financing activities**

During 2018 financing activities provided cash of \$1,283,132 compared to providing cash of \$2,082,830 in 2017. In fiscal 2018 the operating loan decreased by an amount of \$130,000, \$500,000 came in by way of a convertible debenture and \$984,374 by way of a shareholder loan.

**Liquidity and Capital Resources**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Cash	<b>11,469</b>	3,277
Working Capital <sup>(i)</sup>	<b>(2,007,073)</b>	(900,092)
Total assets	<b>3,385,465</b>	3,399,699

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

In the fiscal year completed on October 31, 2018, 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 additional loans from existing shareholders, and the increase in the Corporation's operating credit facility. There was a working capital deficiency of \$2,007,073 compared to a working capital deficiency of \$900,092 at the end of fiscal 2017.

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 initiatives related to product acquisition rights and regulatory filings should lead to a series of product launches over the coming year. In addition to the anticipated launch of Onstryv (See "Subsequent Events") and Utrogestan licensed in 2018 and already approved by Health Canada, the Corporation expects the regulatory approval and launch of Sodium Ethacrynate in the United States, as well as two more products to contribute to its Product Revenue in 2019.

The combination of these five new product launches could materially impact both the Corporation's product revenues as well as the Corporation's gross margin contribution.

**Transactions with Related Parties**

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

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Key management salary and benefits	<b>835,183</b>	819,780
Directors and employee stock option compensation	<b>77,639</b>	82,389
Consulting fee paid to a company controlled by an officer	<b>22,500</b>	-
Convertible debt and loans to shareholders	<b>1,459,705</b>	3,463,060

**Off balance sheet arrangements**

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

## VALEO PHARMA INC.

### Fourth Quarter Analysis

<b>Consolidated Statements of Loss</b>	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
<b>Revenues</b>				
Net product revenue	<b>1,750,206</b>	159,800	<b>1,590,406</b>	<b>995%</b>
Agency revenue	<b>-</b>	111,377	<b>(111,377)</b>	<b>(100%)</b>
	<b>1,750,206</b>	271,177	<b>1,479,029</b>	<b>545%</b>
Cost of Sales	<b>1,603,648</b>	142,327	<b>1,461,321</b>	<b>1027%</b>
<b>Gross Profit</b>	<b>146,558</b>	128,850	<b>17,708</b>	<b>14%</b>
Gross Profit %	<b>8.4%</b>	47.5%		
<b>Expenses</b>				
Selling, general and administrative ("SG&A") expenses	<b>1,084,981</b>	790,264	<b>294,717</b>	<b>37%</b>
Financial expenses	<b>45,561</b>	52,635	<b>(7,074)</b>	<b>(13%)</b>
Other income (expense)	<b>(59,535)</b>	49,208	<b>(108,743)</b>	<b>(221%)</b>
Impairment of investment in associate	<b>4,592</b>	-	<b>4,592</b>	<b>100%</b>
(Recovery) impairment on balance of sale	<b>-</b>	856,348	<b>(856,348)</b>	<b>(100%)</b>
	<b>1,075,599</b>	1,748,455	<b>(672,856)</b>	<b>(38%)</b>
<b>Loss before income taxes</b>	<b>(929,041)</b>	(1,619,605)	<b>690,564</b>	<b>(43%)</b>
(Provision for) recovery of income taxes	<b>-</b>	395,090	<b>(395,090)</b>	<b>(100%)</b>
<b>Net loss for the year</b>	<b>(929,041)</b>	<b>(1,224,515)</b>	<b>295,474</b>	<b>(24%)</b>
<b>Additional Information</b>				
Net contribution from Product Sales	146,558	17,473	129,085	739%
Net margin from Product Sales	8.4%	10.9%	(2.5%)	(23%)

The following table provides a reconciliation of net loss to EBITDA for the quarters ended October 31, 2018 and October 31, 2017.

	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
<b>Net loss for the quarter</b>	<b>(929,041)</b>	(1,224,515)	<b>295,474</b>	<b>(24%)</b>
<i>Add (deduct)</i>				
Recovery of income taxes	-	(395,090)	<b>395,090</b>	<b>(100%)</b>
Interest expense	<b>23,211</b>	42,279	<b>(19,068)</b>	<b>(45%)</b>
Depreciation of property and equipment	<b>10,098</b>	10,450	<b>(352)</b>	<b>(3%)</b>
Amortization of intangible assets	<b>3,102</b>	-	<b>3,102</b>	<b>100%</b>
<b>Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA(L))</b>	<b>(892,630)</b>	(1,566,876)	<b>674,246</b>	<b>(43%)</b>

### Revenue

Product Revenues and Cost of goods sold for the three-month period ending October 31, 2018 have increased compared to the same period in the prior year, reflecting the change in the Ethypharm contract which resulted in Valeo presenting full revenues and cost of goods as the Corporation is now acting as the principal for the sales of these products as opposed to agent.

During the fourth quarter of 2018, the Corporation realized \$1,705,206 of product revenue representing a 995% increase over the fourth quarter of 2017. The Corporation did not realize any agency revenue during the quarter compared to \$111,377 in the corresponding period last year. As mentioned earlier, Valeo has stopped reporting agency revenues under the Ethypharm contract starting May 1, 2018. Total revenues for the last quarter of 2018 have increased 545% versus the last quarter of 2017.

When excluding the agency revenues, net contribution from the sale of products has increased by 739% from the last quarter

**Fourth Quarter Analysis – cont'd****Revenue – cont'd**

of 2017 to the last quarter of 2018.

Our Gross Profit for the quarter completed on October 31, 2018 stood at 8.4% compared to 47.5% for the last quarter of 2017. The Gross profits for the respective periods have been impacted by the shift from agency to principal under the Ethypharm contract. To better indicate the contribution from the sale of products, they are presented separately and show a 23% decrease in the net profit, on these sales, from 10.9% to 8.4%. The Gross margins and net contribution for the 4th quarter of 2018 has been impacted by an inventory write-down (*Note 6* of our year-end consolidated financial statements). The full amount represents the write-down of expired active ingredients purchased for the development of our sodium ethacrylate product. Also, an adjustment for a retroactive government charge was taken during the last quarter of 2018 representing a \$31,634 charge related to previous quarters. This charge represents a negotiated volume related price adjustment for the sale of some of our products in certain territories. Before these items as well as other non-recurrent charges, our gross profit and net contribution margin would have been in the 15-20% range.

**Expenses**

SG&A expenses for the fourth quarter 2018 were \$1,084,981 compared to \$790,264 for the same quarter in the prior year representing a 37% increase. The bulk of the increase is related to salaries and stock compensation expense related to the addition of board members, and senior administrative personnel in preparation for the listing of the Corporation's common shares on a Canadian exchange, as well as addition of several staff and increase marketing expenses in anticipation of the launch of new products in the coming quarters.

**Financial Expenses**

Financial expenses for the fourth quarter of 2018 were \$45,561, representing a 13% decrease over the prior year same period reflecting a reduction of long-term liabilities outstanding during the two reporting periods.

**Other (Income) Expenses**

The Corporation recognized \$59,535 of service income during the quarter compared to nil in the last quarter of 2017. The Corporation continues to look at opportunities to share operating and administrative expenses where possible by providing regulatory, administrative support and other similar services to other companies requiring such services. Valeo expects to maintain such relationships over the coming year but will re-evaluate its ability to support third party companies in the future.

**Other Items**

During the quarter ended October 31, 2018, the Corporation took an impairment charge of \$4,592 on its investment in an associate company as it determined that the carrying amount of the investment exceeded its recoverable amount. In the last quarter of 2017, the Corporation recorded an impairment on the Valeant Balance of Sale of \$856,348 compared to no recovery or impairment in the last quarter of 2018, as the Valeant Balance of Sale was fully collected by the middle of 2018. No additional tax provision nor recovery was recorded during the quarter.

**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.

### **Risk Management – cont'd**

#### **a) Market risk – cont'd**

##### **(ii) Cash flow and fair value interest rate risk – cont'd**

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.

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 October 31, 2018. 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 October 31, 2018, the Corporation has \$95,843 of loans with former shareholders, \$787,084 of long-term debt owed to the ultimate Parent company and \$672,621 of loans and convertible debt owed to minority shareholders.

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 October 31, 2018 the Corporation is not subject to any externally imposed capital requirements.

### **Commitments**

In April 2013, the Corporation renegotiated the lease for its rental premises for another 5-year term to expire in August 2019. The minimum lease payments amount to \$110,231 for the remaining term of the lease. The Corporation's operating lease agreement does not contain any contingent rent clauses.

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 royalty payments based on Net Sales at rates of 10-20% in any given year based on aggregate Net Sales levels achieved during the year.

### **Subsequent Events**

#### **a) Autorité des Marchés Financiers ("AMF") Receipt of Valeo's Final Non-Offering Long Form Prospectus.**

A non-offering Prospectus was filed on December 21, 2018 with the securities regulatory authorities in each of the provinces and territories of Canada for the purpose of allowing the Corporation to become a reporting issuer in these jurisdictions and to become eligible for listing pursuant to the policies of the Canadian Securities Exchange ("CSE") in order to develop an organized market for the Corporation's Class A shares. Since no securities were offered

### Subsequent Events – cont'd

**a) Autorité des Marchés Financiers (“AMF”) Receipt of Valeo’s Final Non-Offering Long Form Prospectus. – cont’d**

pursuant to the Prospectus, no proceeds were raised, and all expenses incurred in connection with the preparation and filing of this Prospectus will be paid by the Corporation.

On December 27, 2018 Valeo received a receipt from the AMF for the filing of its final non-offering long form prospectus. Following the AMF receipt, the Corporation applied for the listing of its shares on the CSE. Listing of the shares would be subject to the Corporation fulfilling all the listing requirements of the CSE, including the receipt by the CSE of all final documentation.

**b) 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 (see – *note 9(i)*).

**c) 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.

**d) Debenture financing**

In July 2018, Valeo launched a non-brokered private placement (the “Offering”) of convertible debentures (the “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 (the “Conversion Price”). Prior to the listing of the Corporation's shares on the CSE, a total of \$1,400,000 was raised as part of this Offering. On February 15<sup>th</sup>, 2019, all outstanding debentures, plus accrued and unpaid interest, were converted into shares at the conversion price, representing a total 3,500,000 Class A common shares.

**e) Listing of shares**

On February 15, 2019 the shares of the Corporation were approved for listing on the CSE. Trading of the shares commenced February 20, 2019.

**Valeo Pharma Inc.**  
**Consolidated Financial Statements**  
**October 31, 2018**

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## Management's Responsibility

To the Shareholders of Valeo Pharma Inc.

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee is composed of Directors who are neither management nor employees of the Corporation. The Committee is responsible for overseeing management in the performance of its financial reporting responsibilities. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Corporation's external auditors.

MNP S.E.N.C.R.L., s.r.l / LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with the Board, the Audit Committee and management to discuss their audit findings.

February 26, 2019

"Steven Saviuk"

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Chief Executive Officer

"Luc Mainville"

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Chief Financial Officer

## Independent Auditors' Report

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To the Shareholders of Valeo Pharma Inc.:

We have audited the accompanying consolidated financial statements of Valeo Pharma Inc., which comprise the consolidated statements of financial position as at October 31, 2018 and October 31, 2017, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Valeo Pharma Inc. as at October 31, 2018 and October 31, 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Montréal, Québec

February 26, 2019



<sup>1</sup> CPA auditor, CA, public accountancy permit no. A122514

**Valeo Pharma Inc.**  
**Consolidated Statements of Financial Position**  
*As at October 31st*

	<i>Note</i>	2018 \$	2017 \$
<b>ASSETS</b>			
Cash		11,469	3,277
Trade receivables		730,761	126,903
Prepaid expenses		52,776	49,700
Other receivables	4	153,364	127,186
Balance of sale receivable	5	-	201,108
Inventory	6	94,909	-
Income tax recoverable	14	1,452	883,507
<b>Total current assets</b>		<b>1,044,731</b>	<b>1,391,681</b>
Investment in associate	7	-	4,592
Property and equipment	8	310,127	332,647
Intangible assets	9	1,983,621	1,670,779
Deferred share issue costs	30	46,986	-
<b>Total non-current assets</b>		<b>2,340,734</b>	<b>2,008,018</b>
<b>Total assets</b>		<b>3,385,465</b>	<b>3,399,699</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>			
Bank indebtedness	10	850,000	980,000
Accounts payable and accrued liabilities	11	2,054,052	1,311,773
Provision for product returns	12	51,909	-
Loans	13	95,843	-
<b>Total current liabilities</b>		<b>3,051,804</b>	<b>2,291,773</b>
Long-term loans	13	952,915	673,469
Convertible debentures	13	506,790	2,789,591
Defined benefit obligation	15	241,462	247,400
<b>Total non-current liabilities</b>		<b>1,701,167</b>	<b>3,710,460</b>
<b>Total liabilities</b>		<b>4,752,971</b>	<b>6,002,233</b>
Share capital	16	4,659,149	413,031
Contributed surplus	16(c)	266,888	189,249
Deficit		(6,101,237)	(3,018,748)
Accumulated other comprehensive loss		(192,306)	(186,066)
<b>Total shareholders' deficit</b>		<b>(1,367,506)</b>	<b>(2,602,534)</b>
<b>Total liabilities and shareholders' deficit</b>		<b>3,385,465</b>	<b>3,399,699</b>

*Commitments (note 19); Related Party Transactions (note 25)*

"Steven Saviuk", Director

"Richard Mackay", Director

The notes are an integral part of these consolidated financial statements

**Valeo Pharma Inc.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
*For the years ended October 31,*

	<i>Note</i>	2018 \$	2017 \$
<b>Revenues</b>	20	4,381,681	1,277,489
<b>Cost of Sales</b>		3,548,714	747,087
<b>Gross Profit</b>		832,967	530,402
Selling, general and administrative expenses	21	3,261,316	3,178,160
Financial expenses	22	265,156	136,776
Other income	23	(147,851)	(51,134)
(Recovery) impairment of balance of sale	5	(150,000)	1,766,598
Impairment of investment in associate	7	4,592	-
		3,233,213	5,030,400
<b>Net loss before income taxes</b>		(2,400,246)	(4,499,998)
<b>(Provision for) recovery of income taxes</b>			
Current	14	(36,717)	881,213
<b>Net loss for the year</b>		(2,436,963)	(3,618,785)
<b>Other comprehensive loss</b>			
Exchange differences on translating foreign operations		(2,531)	5,235
Defined benefit plan, net actuarial loss		(3,709)	(27,121)
<b>Total comprehensive loss</b>		(2,443,203)	(3,640,671)
<b>Loss per share:</b>			
Basic and diluted	17	(0.07)	(0.12)
<b>Weighted average number of shares outstanding (i)</b>		35,653,069	31,400,000

(i) The outstanding number of shares presented for 2017 are reflected post split (*note – 16b(iii)*)

The notes are an integral part of these consolidated financial statements

**Valeo Pharma Inc.**  
**Consolidated Statements of Changes in Shareholders' Deficit**  
*For the years ended October 31,*

	<i>Note</i>	<b>Share Capital \$</b>	<b>Retained earnings/ (deficit) \$</b>	<b>Contributed surplus \$</b>	<b>Accumulated Other Comprehensive Income ("OCI")</b>			<b>Total \$</b>
					<b>Defined benefit plan \$</b>	<b>Foreign exchange translation \$</b>	<b>Total OCI \$</b>	
As at October 31, 2016		413,031	600,037	106,860	(128,576)	(35,604)	(164,180)	955,748
Total comprehensive loss								
Net loss		-	(3,618,785)	-	-	-	-	(3,618,785)
Other comprehensive (loss) income		-	-	-	(27,121)	5,235	(21,886)	(21,886)
		-	(3,618,785)	-	(27,121)	5,235	(21,886)	(3,640,671)
Share based compensation		-	-	82,389	-	-	-	82,389
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		-	(2,436,963)	-	-	-	-	(2,436,963)
Other comprehensive loss		-	-	-	(3,709)	(2,531)	(6,240)	(6,240)
		-	(2,436,963)	-	(3,709)	(2,531)	(6,240)	(2,443,203)
Conversion of debentures into shares		2,852,618	-	-	-	-	-	2,852,618
Conversion of loans into shares		1,400,000	-	-	-	-	-	1,400,000
Share based compensation	16(c)	-	-	77,639	-	-	-	77,639
Share issue costs	16 (vi)	(6,500)	-	-	-	-	-	(6,500)
Redemption of X and X1 shares	16(i)	-	(580,800)	-	-	-	-	(580,800)
Dividends paid		-	(64,726)	-	-	-	-	(64,726)
As at October 31, 2018		4,659,149	(6,101,237)	266,888	(159,406)	(32,900)	(192,306)	(1,367,506)

The notes are an integral part of these consolidated financial statements

**Valeo Pharma Inc.**  
**Consolidated Statements of Cash Flows**  
*For the years ended October 31st,*

		2018	2017
	Note	\$	\$
<b>Operating activities:</b>			
Net loss from operations		(2,436,963)	(3,618,785)
<b>Add (deduct) items not affecting cash:</b>			
(Recovery) impairment of balance of sale	5	(150,000)	1,766,598
Write-down of inventory	6	84,838	-
Impairment of investment in associate	7	4,592	-
Depreciation of property and equipment	8	39,304	40,124
Amortization of intangible assets	9	5,170	-
Write-down of intangible assets	9	-	33,232
Provision for sales returns	12	51,909	-
Defined benefit pension expense	15	8,110	7,142
Share based compensation	16(c)	77,639	82,389
Accretion of financial expenses	22	-	(45,950)
Interest expense		174,388	-
Unrealized loss on foreign exchange		15,599	5,271
Net change in non-cash operating working capital	18	791,965	498,415
Cash used by operations		(1,333,449)	(1,231,564)
<b>Investing activities:</b>			
Proceeds from balance of sale	5	351,108	161,244
Acquisition of property and equipment	8	(14,776)	(21,498)
Acquisition of intangible assets	9	(308,438)	(1,233,945)
Reimbursement of acquisition costs of intangible assets	9	34,996	34,026
Cash provided (used) by investing activities		62,890	(1,060,173)
<b>Financing activities:</b>			
(Decrease) increase in bank indebtedness	10	(130,000)	980,000
Increase in loans from shareholders	13	984,374	602,830
Increase in convertible debentures	13	500,000	500,000
Payment of common share issue costs	16(vi)	(6,500)	-
Deferred share costs	30	(46,986)	-
Funding of defined benefit plan	15	(17,756)	-
Cash provided by financing activities		1,283,132	2,082,830
<b>Foreign exchange (gain) loss on cash</b>		(4,381)	6,100
<b>Increase (decrease) in cash</b>		8,192	(202,807)
Cash, beginning of year		3,277	206,084
<b>Cash, end of year</b>		11,469	3,277

The notes are an integral part of these 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 consolidated financial statements of the Corporation have been prepared for the year ended October 31, 2018 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These 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. The policies set out below have been consistently applied to all the periods presented.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on February 26, 2019.

## **2. Summary of Significant Accounting Policies**

### **a) Basis of consolidation**

These financial statements consolidate those of the Corporation and its wholly-owned subsidiaries (the "Group"). All subsidiaries have a reporting date of October 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 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 October 31, 2018, there was a consolidated working capital deficiency of \$2,007,073 (October 31, 2017 – consolidated working capital deficiency of \$900,092) and a consolidated loss of \$2,436,963 for the year ended October 31, 2018 (consolidated loss of \$3,618,785 for the year ended October 31, 2017). 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) Revenue recognition**

Revenue from the sale of merchandise is recognized when significant risks and benefits of ownership are transferred, it is probable that the economic benefits associated with the transaction will flow to the Corporation and the amount of revenue can be measured reliably. Based on the terms of the Corporation's arrangements with suppliers and the guidance per IAS 18 regarding agency relationships, the Corporation has determined that it acts as principal. Where the Corporation has acted as an agent, it has recorded revenues on a net basis in the statement of operations. In all

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

### c) Revenue recognition – cont'd

other arrangements, the Corporation has determined that it acts as principal, as such, revenues are accounted for on a gross basis, net of estimated sales discounts, credits, returns, rebates and allowances.

Interest income is recorded on an accrual basis.

### d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Corporation.

Transactions denominated in foreign currencies are initially recorded in the functional currency of the related entity using the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates. Any resulting exchange difference is recognized in income except for exchange differences related to retirement benefits assets and liabilities, as well as changes in foreign currency related to the Corporation's net investments in a foreign operation, which are recognized in other comprehensive income ("OCI"). Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated using historical exchange rates, and those measured at fair value are translated using the exchange rates in effect at the date the fair value is determined. Revenues and expenses are translated using the average exchange rates for the period or the exchange rate at the date of the transaction for significant items.

Assets and liabilities of foreign operations, whose functional currency is other than the Canadian dollar, are translated into Canadian dollars using exchange rates in effect at period-end. Revenues and expenses, as well as cash flows, are translated using the average exchange rates for the period. Translation gains or losses are recognized in OCI and are reclassified in income on disposal or partial disposal of the investment in the related foreign operation. The functional currency of Valeo Pharma Corp. is the United States dollar ("US\$"). The exchange rates adopted are as follows:

	October 31, 2018	October 31, 2017
End of year exchange rate	1.3142	1.2893
Yearly average exchange rate	1.2869	1.3081

### e) Financial instruments

All financial instruments are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument and are initially measured at fair value for instruments not at fair value through profit or loss, plus any directly attributable transaction costs. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. Financial instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss ("FVTPL")
- held to maturity investments
- other financial liabilities

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets, except for those at FVTPL, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. Assets in this category are measured at fair value with gains and losses recognized in profit or loss. Management evaluates that the loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

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

### e) Financial instruments – cont'd

Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables is recognized in profit or loss within general administrative expenses. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss or a portion of such is reversed. The amount of the impairment loss reversed may not exceed the original impairment amount.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held to maturity if the Corporation has the intention and ability to hold them until maturity. Held to maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Other financial liabilities include liabilities that have not been classified as fair value through profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The Corporation's convertible debentures are segregated into their debt and equity elements at the date of issue, based on their initial fair values. The debt element of the instruments is classified as a liability and is recorded as the present value of the Corporation's obligation to make future interest payments in cash and settle the redemption value of the instrument in cash or in a variable number of shares. The carrying value of the debt element is accreted to the original face value of the instruments, over their deemed life, using the effective interest method. The equity element equals the difference between the fair value of the convertible debenture, as a whole, and the fair value of the liability element.

On conversion, if the Corporation settles in shares, the carrying amount of the equity element and the carrying amount of the debt element, including any accrued interest, are reclassified to share capital. Alternatively, if the Corporation settles in cash, any gain/loss arising from extinguishment of the debentures are recorded in profit (loss) of the current year. Any gain/loss arising from the settlement of the equity element is recognized in equity.

In the event that the instruments are not converted and the conversion option expires at maturity, the Corporation accounts for the settlement of the instruments at redemption value, which is equal to the stated principal amount of the instruments. The debt element is derecognized, and the carrying amount of the equity element is reclassified to contributed equity. If the Corporation settles the debt element through issuance of shares, the redemption value of the debt element is credited to share capital.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires. Financial assets and financial liabilities are off-set, and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial instruments that are measured at fair value use inputs, which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 - Assets or liabilities whose values are based on quoted market prices in active markets include active exchange-traded equity investments.

Level 2 - Assets or liabilities that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs.

Level 3 - Inputs for the asset or liability that are not based on observable market data. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input for fair value measurement purposes requires judgment in considering the relevant factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgment by the Corporation. The Corporation considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. See *note 26 - Financial Instruments* – for the details of their classification.

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

### f) Cash and cash equivalents

The Corporation considers all investments with maturities of three months or less, that are highly liquid and readily convertible into cash, to be cash equivalents. As at October 31, 2018 and 2017 there were no cash equivalents.

### g) Inventory

Finished goods are stated at the lower of cost and net realizable value in accordance with IAS 2, Inventories. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs. The Company determines its provision for obsolete inventory based on the quantities on hand at the reporting dates, compared to foreseeable needs over the upcoming periods.

### h) Investment in associate

The Corporation accounts for investments in associates using the equity method. An associate is an entity in which the Corporation has significant influence but not unilateral or joint control over the financial and operating policies. Investments in associates are carried in the consolidated statement of financial position at the Corporation's share of the associates' net assets at date of acquisition and of its post-acquisition retained net profit or loss, net of taxation. The consolidated statement of loss reflects the share of the results of operations of the associate. The share of net profit or loss of an associate is shown on the face of the consolidated statement of loss. When the Corporation's share of losses in an associate equal or exceeds its interest in the associate the Corporation does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Corporation determines whether it is necessary to recognize an additional impairment loss on the Corporation's investment in its associate. The Corporation determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Corporation calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statement of profit or loss. Upon loss of significant influence over the associates, the Corporation measures and recognizes any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and any proceeds from disposal is recognized in the consolidated statement of profit or loss.

### i) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Depreciation is charged to income based on the cost. When significant parts of property and equipment are required to be replaced in intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Depreciation is provided at rates and periods designed to depreciate the costs of the assets over their estimated useful lives as follows:

Assets	Method	
	<i>Declining balance</i>	<i>Straight-line</i>
Computer equipment	30%	
Equipment and furniture	20%	
Security vault	4%	
Leasehold improvements		over the lease term

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. Gains and losses on disposal of property and equipment are recorded in the consolidated statement of profit or loss in the year of disposal.

### j) Intangible assets

Development expenditures are capitalized as a part of intangible assets only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient resources to complete development and to use or sell the asset. In situations where development qualifies for government research incentives, the investment tax credits are netted against the expenditures made for the specific product project.

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

### j) Intangible assets – cont'd

Expenditures incurred for preparing and filing a product submission are also capitalized when the criteria for recognizing an asset are met, usually when approval is considered highly probable, i.e. that approval of a marketing authorization from the Canadian or United States health authorities will be granted.

Separately acquired licenses are recorded at cost less accumulated amortization and any accumulated impairment charges. These assets are amortized over the terms of their respective licenses.

These costs will be amortized over the estimated life of the product when commercialization has occurred. Commercialization has commenced for one product, *sodium ethacrylate*, and as such the related intangible asset is being amortized over a ten-year period.

### k) Impairment of non-financial assets

The Corporation assesses, at each reporting period, whether there is an indication that an asset may be impaired. An impairment is recognized when the carrying amount of an asset, or its cash generating unit ("CGU"), exceeds its recoverable amount. The recoverable amount is the greater of the asset's fair value or CGU's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs to sell, an appropriate valuation model is used.

Intangibles with indefinite life are tested annually; property and equipment, as well as intangible assets with a defined useful life are tested for impairment whenever there is an indication that the carrying amount of the asset or the CGU to which an asset has been allocated exceeds its recoverable amount. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the recoverable amount of the asset. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognized. The reversal of impairment losses is limited to the amount that would bring the carrying value of the asset to the amount that would have been recorded, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of profit or loss in the same line item where the original impairment was recognized. Impairments of goodwill are not reversed.

Intangible assets not yet available for use are reviewed for impairment at least annually or more frequently if circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that the asset might be impaired.

### l) Income taxes

Income tax expense comprises current and deferred tax. Tax expense is recognized in the consolidated statement of profit or loss, except to the extent it relates to items recognized directly in shareholders' equity, in which case the related tax is recognized in shareholders' equity.

#### Current Tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Corporation operates.

#### Deferred Tax

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are recognized for the future income tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases, and for tax losses carried forward. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates that will be in effect for the year in which the differences are expected to reverse.

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized.

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

### **l) Income taxes – cont'd**

Deferred tax asset and liability differences are recognized directly in income, OCI or equity based on the classification of the item to which they relate.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its tax assets and liabilities on a net basis.

### **m) Sales Tax**

Revenues, expenses and assets are recognized net of amount of sales tax except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized in the cost of acquisition of the asset or as part of the expense item, as applicable; and receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of other receivables or accounts payable and accrued liabilities in the consolidated statement of financial position.

### **n) Provisions**

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. These liabilities are presented as provisions when they are of uncertain timing or amount. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to that obligation.

In certain circumstances, returns of products are allowed under the Corporation's policy and provisions are maintained accordingly. Revenue is recorded net of these provisions, which are calculated based on historical experience and the industry average.

### **o) Share based compensation**

The Corporation grants stock options to certain directors, officers and employees. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is determined at the date of grant using the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Corporation's common stock and an expected life of the stock-based instruments, and is subsequently re-measured at each balance sheet date on the same basis. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately to the statement of profit or loss with an offsetting credit to contributed surplus, except for options granted as consideration for share issuance costs which are charged to share capital.

When stock options are exercised, capital stock is credited by the sum of the consideration paid, together with the related portion previously recorded to contributed surplus.

### **p) Investment tax credits**

These tax credits are recognized when there is reasonable assurance of their recovery using the cost reduction method. Tax credits are subject to the customary approvals by the pertinent tax authorities. Adjustments required, if any, are reflected in the year when such assessments are received. No investment tax credits have been recorded in the current or previous year.

### **q) Employee benefits**

Wages, salaries and bonuses are recognized in the year in which the associated services are rendered by employees of the Corporation. Employee benefits also include pension benefits (both defined benefit and defined contribution plans). Assets and obligations and related costs of the employee defined benefit plan are accounted for using the following accounting policies:

- defined benefit obligations are determined from actuarial calculations using the projected benefit method pro-rated on service up to June 30, 2005 and management's best estimate of expected plan investment performance, salary escalations and retirement ages of employees.
- for the purpose of calculating the estimated rate of return on plan assets, assets are measured at fair value.

## 2. Summary of Significant Accounting Policies - cont'd

### q) Employee benefits – cont'd

- actuarial gains or losses arise from the difference between the effective yield of plan assets for a period and the expected yield on plan assets for the period, from changes in actuarial assumptions used to determine defined benefit obligations and from emerging experience that differs from the selected assumptions. Actual gains or losses are recognized under other comprehensive income in the period in which they occur.
- net interest is recognized in net earnings calculated using the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds.
- actual return on plan assets is recognized in other comprehensive income.
- defined benefit plan assets or liabilities recognized in the statement of financial position correspond to the difference between the present value of defined benefit obligations and the fair value of plan assets.

The defined contribution component of the pension plan became effective July 1, 2005. The current service cost is funded based on the employee service rendered during the period.

### r) Leases

Leases are classified as either finance or operating. Leases that transfer substantially all the risks and benefits of ownership to the Corporation and meet the criteria of finance leases are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments. Related assets are amortized on a straight-line basis over the term of the lease but not in excess of their useful lives. All other leases are accounted for as operating leases wherein rental payments are recorded in rent expenses on a straight-line basis over the term of the related lease. Tenant inducements received are amortized into rent expense over the term of the related lease agreement.

### s) Earnings per share

Earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share would be calculated allowing for the exercise of all dilutive instruments and would assume that any proceeds that could be obtained upon the exercise of options would be used to purchase common shares at the average market price during the period. The diluted earnings or loss per share calculation excludes any potential conversion of options that would increase earnings per share or decrease loss per share.

### t) Recent accounting pronouncements

The Corporation has not yet applied the following new standards, interpretations or amendments to standards that have been issued but are not yet effective. Unless otherwise stated, the Corporation does not plan to early adopt any of these new or amended standards and interpretations.

#### ***IFRS 9 Financial Instruments***

The final version of IFRS 9, Financial instruments ("IFRS 9"), was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity's own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018 and is available for early adoption. In addition, an entity's own credit risk changes can be applied early in isolation without otherwise changing the accounting for financial instruments. The Corporation has assessed the impact that this new standard may have on the Corporation's consolidated financial statements. Based on its current assessment, the Corporation does not anticipate any material impact on the consolidated financial statements as a result of the application of this Standard.

## 2. Summary of Significant Accounting Policies - cont'd

### ***IFRS 15 Revenue from Contracts with Customers***

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. 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. This new standard is effective for annual periods beginning on or after January 1, 2018. The Corporation has assessed the impact that this new standard may have on the Corporation's consolidated financial statements. Based on its current assessment, the Corporation does not anticipate any material impact on the consolidated financial statements as a result of the application of this Standard. As a result of the application of this new standard, where a right of return exists, the Corporation will record an asset and a refund liability when revenue is recorded.

### ***IFRS 16 Leases***

In January 2016, IFRS 16 Leases ("IFRS 16") was issued, which replaces IAS 17 Leases, and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessees, IFRS 16 removes the classification of leases as either operating or financing and requires that all leases be recognized on the statement of financial position, with certain exemptions that include leases of 12 months or less. The accounting for lessors is substantially unchanged. The standard is effective for annual periods beginning on or after January 1, 2019, to be applied retrospectively, or on a modified retrospective basis. The Corporation is currently assessing the impact the adoption of this standard will have on these consolidated financial statements.

## 3. Use of Estimates and Judgements

The application of the Corporation's accounting policies requires management to use estimates and judgments that can have a significant effect on the revenues, expenses, comprehensive income, assets and liabilities recognized and disclosures made in the consolidated financial statements.

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used.

Management's budget and strategic plans are fundamental information used as a basis for estimates necessary to prepare financial information. Management tracks performance as compared to the budget and significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

### **a) The following areas require management's critical estimates:**

#### ***Intangible assets***

Significant judgements are made in determining the useful lives and recoverable amounts of the Corporation's intangible assets, and in evaluating whether certain events or circumstances represent objective evidence of impairment. Estimates of the recoverable amounts of the intangible assets rely on certain factors such as future cash flows and discount rates. Future cash flows are based on sales projections and costs which are estimated based on forecasted results while discount rates are based on the Corporation's cost of capital. Future outcomes may be materially different than those assumptions used in the impairment assessment and therefore could have a significant effect on the results of the Corporation.

#### ***Valuation of deferred tax assets and liabilities***

To determine the extent to which deferred tax assets can be recognized, management estimates the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilized. Such estimates are made as part of the budget process on an undiscounted basis and are reviewed on a quarterly basis. Management exercises judgment to determine the extent to which realization of future taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized. To the extent that management's assessment of the Corporation's ability to utilize future tax deductions changes, the Corporation would be required to recognize more or fewer deferred tax assets, and income tax provisions or recoveries in future periods could be affected.

### 3. Use of Estimates and Judgements – cont'd

#### a) The following areas require managements critical estimates: - cont'd

##### *Defined benefit plan*

The actuarial valuation process used to measure pension costs, assets and obligations is dependent on assumptions regarding discount rates, expected long-term rate of return on plan assets, compensation and inflation rates, health-care cost trends, as well as demographic factors such as retirement and mortality rates. As assumptions and estimates are long-term in nature, management assesses events and circumstances that could require a change in other assumptions or estimates on an annual basis. Discount rates represent the market rates for high quality corporate fixed income investments consistent with the currency and the estimated term of the retirement benefit obligations. Expected long-term rates of return on plan assets are determined considering historical returns, future estimates of long-term investment returns and target asset allocations.

##### *Revenue recognition*

Revenue from the sale of merchandise is recognized when title and risk of loss is passed to the customer and reliable estimates can be made of relevant deductions. Gross revenue is reduced by discounts, credits, allowances and product returns. Accruals are made at the time of sale for the estimated discounts, credits, allowances and product returns, based on available market information and historical experience. Because the amounts are estimated they may not fully reflect the final outcome, and the amounts are subject to change. The level of accrual is reviewed and adjusted regularly in light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third party analyses, market research data and internally generated information. Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Corporation.

##### *Share-based payments*

The Corporation measures the cost of share-based payments, either equity or cash-settled, by reference to the fair value of the equity instrument or underlying equity instrument at the date on which they are granted. Estimating fair value for share-based payments requires management to determine the most appropriate valuation model for a grant, which is dependent on the terms and conditions of each grant. In valuing certain types of share-based payments, such as incentive stock options and stock appreciation rights, the Corporation uses the Black-Scholes option pricing model. Several assumptions are used in the underlying calculation of fair values of the Corporation's stock options and stock appreciation rights using the Black-Scholes option pricing model, including the expected life of the option, stock price volatility and forfeiture rates. Details of the assumptions used are included in *note 16*.

#### b) The following area requires management's critical judgement:

##### *Intangible assets*

Management uses its judgment to determine whether costs incurred meet the criteria to be recorded as an intangible asset.

Expenditures incurred for preparing and filing a product submission are capitalized when the criteria for recognizing an asset are met, usually when approval is considered highly probable that a marketing authorization from the Canadian or United States health authorities will be granted. The likelihood of regulatory approval is reviewed and adjusted for, should facts and circumstances change.

Development costs are capitalized as a part of intangible assets only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient resources to complete development and to use or sell the asset. Technical, market and financial feasibility criteria are assessed annually based on management's experience, general economic conditions and assumptions regarding future outcomes. Future events could cause the assumptions on which the expenditures are capitalized to change, which could affect the Corporation's results in the future.

##### *Principal vs agent*

The Corporation is required to make judgements with respect to its relationships with suppliers. Based on the terms of the arrangements, the Corporation determines whether it has the primary responsibility for providing the goods to the customer or for fulfilling its orders, whether it has inventory risk, whether it has latitude in establishing prices, and whether it bears credit risk or other risks pertinent to the transaction.

**Valeo Pharma Inc.**  
**Notes to Consolidated Financial Statements**  
*As at October 31, 2018*

**4. Other Receivables**

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

	<b>2018</b>	2017
	<b>\$</b>	<b>\$</b>
Receivables from others	<b>121,536</b>	98,231
Sales taxes receivable	<b>31,828</b>	19,527
Receivable from a director	-	9,428
	<b>153,364</b>	127,186

**5. Balance of Sale**

	<b>\$</b>
Balance as at October 31, 2016	2,083,000
Cash received	(161,244)
Impairment on the balance of sale	(1,766,598)
Accretion interest	45,950
<b>Balance as at October 31, 2017</b>	<b>201,108</b>
Cash received	<b>(351,108)</b>
Recovery of balance of sale	<b>150,000</b>
Accretion interest	-
<b>Balance as at October 31, 2018</b>	<b>-</b>

On August 22, 2014, the Corporation sold the majority of its product portfolio, related inventory and certain other assets to Valeant Canada LP. Subject to various adjustments provided in the Sales Agreement, the purchase price was set at \$25,645,015, of which an amount of \$7,000,000 was an earn-out that is subject to reduction. The earn-out requirement is based on a yearly sales profit calculation in respect of two injectable pharmaceutical products that were sold in the transaction. As the earn-out amount did not earn interest, management had present valued the \$7,000,000 at an estimated market discount rate of 4.5% interest over the three-year earn-out period and had reflected a \$6,472,400 balance of sale receivable as at October 31, 2014.

At October 31, 2015, based on the first year earn-out received and sales forecasts provided by the buyer, management revised the estimate of the remaining balance of sale and took a write-down on the balance of \$1,264,862. At October 31, 2016, management revised the estimate of the balance of sale receivable and reversed \$384,958 of the impairment taken at October 31, 2015. During the second quarter of 2017 a milestone payment of \$161,244 was received. In the second quarter of 2018, a settlement of \$351,108 was reached and collected concerning the final milestone calculation.

**6. Inventory**

The Corporation's inventory consists of the following:

	<b>2018</b>	2017
	<b>\$</b>	<b>\$</b>
Finished goods	<b>94,909</b>	-
	<b>94,909</b>	-

A write-down of \$84,838 (2017 – nil) was taken on expired active ingredients.

**Valeo Pharma Inc.**  
**Notes to Consolidated Financial Statements**  
*As at October 31, 2018*

**7. Investment in Associate**

The investment is accounted for using the equity method, and is carried as follows:

	<b>2018</b>	2017
	<b>\$</b>	<b>\$</b>
Garrison Pharma Solutions Inc. 50% ownership, 63 Class A common shares	<b>4,592</b>	4,592
Impairment of investment	<b>(4,592)</b>	-
<b>Net carrying value</b>	<b>-</b>	4,592

The associate has two advances on their statement of financial position, payable to the Corporation and to the other shareholder. The associate is inactive since 2012. In 2018, an impairment was recognized as the Corporation determined the carrying amount of the investment exceeded its recoverable amount.

The following table provides summary financial information regarding the investment in associate.

	<b>2018</b>	2017
	<b>\$</b>	<b>\$</b>
Long term assets	<b>76,489</b>	76,489
Long term liabilities	<b>(340,446)</b>	(340,446)
<b>Total net assets (liabilities)</b>	<b>(263,957)</b>	(263,957)
Our share of net liabilities	<b>(131,993)</b>	(131,993)
<b>Total net loss</b>	<b>-</b>	-
Share of net loss	<b>-</b>	-

**8. Property and Equipment**

	<b>Leasehold improvements</b>	<b>Computer equipment</b>	<b>Equipment and furniture</b>	<b>Security Vault</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>					
Balance as at October 31, 2017	105,618	251,449	177,046	196,442	730,555
Additions	-	13,866	2,920	-	16,786
<b>Balance as at October 31, 2018</b>	<b>105,618</b>	<b>265,315</b>	<b>179,966</b>	<b>196,442</b>	<b>747,341</b>
<b>Accumulated depreciation</b>					
Balance as at October 31, 2017	60,667	201,931	111,361	23,951	397,910
Depreciation	10,562	14,211	7,631	6,900	39,304
<b>Balance as at October 31, 2018</b>	<b>71,229</b>	<b>216,142</b>	<b>118,992</b>	<b>30,851</b>	<b>437,214</b>
<b>Net carrying value October 31, 2018</b>	<b>34,389</b>	<b>49,173</b>	<b>60,974</b>	<b>165,591</b>	<b>310,127</b>

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**8. Property and Equipment – cont'd**

	Leasehold improvements	Computer equipment	Equipment and furniture	Security Vault	Total
	\$	\$	\$	\$	\$
Cost					
Balance as at October 31, 2016	105,618	235,729	171,269	196,443	709,059
Additions	-	15,720	5,778	-	21,498
Balance as at October 31, 2017	105,618	251,449	177,047	196,443	730,557
Accumulated depreciation					
Balance as at October 31, 2016	50,105	188,436	102,481	16,764	357,786
Depreciation	10,562	13,495	8,880	7,187	40,124
Balance as at October 31, 2017	60,667	201,931	111,361	23,951	397,910
Net carrying value October 31, 2017	44,951	49,518	65,686	172,492	332,647

**9. Intangible Assets**

	Submission costs	License fee (i)	Total
	\$	\$	\$
Balance as at October 31, 2016	504,092	-	504,092
Additions	199,919	1,000,000	1,199,919
Write-down (ii)	(33,232)	-	(33,232)
Balance as at October 31, 2017	<b>670,779</b>	<b>1,000,000</b>	<b>1,670,779</b>
Additions	<b>318,012</b>	-	<b>318,012</b>
Amortization	<b>(5,170)</b>	-	<b>(5,170)</b>
<b>Balance as at October 31, 2018</b>	<b>983,621</b>	<b>1,000,000</b>	<b>1,983,621</b>

(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 as described in *note 16(ii)*. Amortization of licensing fees will be recognized following the receipt of regulatory approval from Health Canada and upon commencement of commercial activities of the product.

(ii) A development project was written-down as it no longer met the criteria for capitalization.

**10. 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
  - o the assigned credit balances for the Corporation;
  - o 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;
  - o 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.

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**11. Accounts Payable and Accrued Liabilities**

	2018 \$	2017 \$
Accounts payable	1,559,262	1,048,893
Payables to related parties (i)	87,538	56,585
Accrued liabilities	407,252	206,295
	<b>2,054,052</b>	<b>1,311,773</b>

(i) Included in payables to related parties

Compensation owed to a person who is an officer and minority shareholder	20,000	10,000
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	55,970	5,768

**12. Provision for Product Returns**

	2018 \$	2017 \$
Balance – beginning of year	-	-
Charges	51,909	-
Utilization	-	-
	<b>51,909</b>	<b>-</b>

The provision for product returns is based on historical experience and the industry average for product returns. Management estimates that the provision will be utilized with the next twelve months.

**13. Loans, Long Term Loans and Convertible Debentures**

Short term loans consist of:

	2018 \$	2017 \$
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 \$2,675.	95,843	-
	<b>95,843</b>	<b>-</b>

Long term loans consist of:

	2018 \$	2017 \$
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 \$5,324.	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 \$9,382.	384,279	-
Loan – unsecured, due to shareholder's, accrues interest at 8% per annum, with no set terms of repayment and a maturity date of March 31, 2020. Includes accrued interest of \$6,114.	165,831	-
Loans – unsecured, due to ultimate parent, accrued interest at 5% per annum, with no set terms of repayment. Includes accrued interest of \$9,713.	-	673,469
	<b>952,915</b>	<b>673,469</b>

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**13. Loans, Long Term Loans and Convertible Debentures – Cont'd**

Convertible debentures consist of:

	2018 \$	2017 \$
Convertible debenture – unsecured due to shareholders, accrues interest at 8% per annum, with no set terms of repayment and a maturity date of November 30, 2019. Includes accrued interest of \$6,790.	506,790	-
Convertible debenture – unsecured, due to ultimate parent, accrued interest at 5% per annum, with no set terms of repayment. Includes accrued interest of \$23,333.	-	1,423,333
Convertible debentures – unsecured, due to shareholders, accrued interest at 5% per annum, with no set terms of repayment. Includes accrued interest of \$29,526.	-	1,366,258
	<b>506,790</b>	<b>2,789,591</b>

During the 3rd quarter of 2018, \$1,766,259 of convertible debentures were surrendered and converted into 4,415,648 Class A common shares of the Corporation at a conversion price of \$0.40 per common share. Convertible debentures in the amount of \$1,000,000 were surrendered and converted into 1,818,182 Class A common shares at a conversion price of \$0.55 per common share. Accrued interest of \$86,359 related to the convertible debentures was also converted into 215,897 Class A common shares at a conversion price of \$0.40 per common share.

A debenture of \$1,400,000 with the ultimate Parent company was converted into 3,500,000 Class A common shares at a conversion price of \$0.40 per common share.

During the 3<sup>rd</sup> quarter 2018, a shareholder subscribed for a \$500,000 unsecured subordinated convertible debenture at an annual rate of 8% and maturing on November 30, 2019. The debenture conversion price is set at \$0.40 per Class A share. The conversion date may be at the option of the holder, or by automatic conversion. In the case of an automatic conversion, the date on which such conversion is deemed to take place will be immediately prior to the occurrence of a Liquidity Event. The Corporation will pay the principal amount of the debentures, on or prior to the maturity date in cash, or automatically upon a Liquidity Event in Class A shares. A Liquidity Event is described as: a) an initial public offering of Class A shares; b) the consummation of a reverse take-over of a publicly-listed entity; c) the consummation of any other transaction for the purpose of obtaining a "reporting issuer" status in one or more Canadian jurisdictions; d) a disposal of the whole or substantially the whole of Class A shares, assets, business and undertaking by whatever means; and e) the winding up or dissolution of the Corporation. 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 8%. Therefore, the fair value of the conversion feature is nil. This debenture was converted on February 15, 2019 (*note 30(iv)*).

**14. Income Taxes**

(a) Details of the components of income taxes are as follows:

	2018 \$	2017 \$
(Loss) before income taxes	(2,400,248)	(3,618,785)
Basic income tax rate	26.7%	26.8%
Computed income tax recovery	(640,866)	(1,205,999)
(Increase) decrease resulting from:		
Permanent differences	(3,707)	393,554
Effect of rate change and other	36,879	47,367
Change in deferred tax assets not recognized	644,411	(116,135)
Provision (recovery) of income taxes	36,717	(881,213)
Effective tax rate	(1.53%)	19.58%

**Valeo Pharma Inc.**  
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**14. Income Taxes – cont'd**

(b) Deferred taxes:

	2018 \$	2017 \$
<b>Deferred tax assets</b>		
Donations carried forward	11,283	9,677
Non-capital losses carried forward	786,049	163,241
Loan provision	20,495	19,838
Employee benefit plan	63,987	65,561
R&D tax credit	19,934	-
Share issue costs	1,964	-
Less: tax benefits not recognized	(903,712)	(258,317)
Total	-	-
<b>Deferred tax liabilities</b>		
Property, equipment and intangible assets	277,331	189,049
R&D Credit	5,282	-
Non-capital losses carried forward	(282,613)	(189,049)
Total	-	-

The difference between the change in the deferred tax asset not recognized and the change in the tax benefits not recognized in the amount of \$983 results from the deferred tax asset not recognized reflected in other comprehensive income due to the net actuarial loss realized during the year (\$3,709 x 26.5% = \$983).

In assessing the realizability of deferred tax assets and liabilities, management considers whether it is probable that some portion or all the deferred tax assets and liabilities will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies.

- (c) 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:

	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

The Corporation has not recognized the tax benefit of the losses arising in Canada or the United States and will recognize them when future profits are probable in the respective jurisdictions.

**15. Employee Benefit Plan**

Effective July 1, 2005, the Corporation's pension benefit plan includes both a defined benefit and a defined contribution component.

The defined benefit plan no longer accrues obligations for the current service cost of employee future benefits as of June 30, 2005. The significant assumptions utilized in the valuation process remain consistent with those used in prior valuations. The most recent actuarial valuation of the defined benefit plan as of December 31, 2015 has established the actuarial deficit to be \$378,140, with such amount having to be funded over the next 15 years. The required contribution in calendar 2018 is \$20,208 and the required contribution will be \$20,208 in calendar 2019 which may change depending on the results of

**15. Employee Benefit Plan – cont'd**

the next valuation. The next actuarial valuation will be performed as of December 31, 2018 and submitted to the government authorities by the September 30, 2019 deadline. An accounting valuation is prepared by the plan actuary at each quarter end and as at October 31st of each year.

The current service cost of active participants in the pension plan is being funded by the Corporation through the defined contribution plan, which became effective July 1, 2005. The Corporation funds the current service cost based on employee service rendered during the period.

The Board of Directors of the Corporation, with assistance from the pension committee, is responsible for the management and governance of the pension plan. The Corporation's pension plan is managed in accordance with Canadian and provincial laws applicable to pension plans, which have determined minimum and maximum funding requirements for pension plans with defined benefits.

The defined benefit pension plan exposes the Corporation to certain risks, including investment returns, changes in the discount rate used to value the obligation, the rate of longevity of participants and inflation.

The following table presents the changes in benefit obligations and fair value of plan assets in 2018 and 2017 and reconciles the funded status to accrued pension assets as at October 31, 2018 and 2017.

	<b>2018</b>	2017
	<b>\$</b>	\$
Changes in Pension Obligation		
Obligation, beginning of year	<b>1,330,606</b>	1,370,532
Interest cost	<b>44,148</b>	44,412
Actuarial (gain) loss	<b>(75,104)</b>	5,243
Benefits paid	<b>(64,255)</b>	(89,581)
Pension obligation, end of year	<b>1,235,395</b>	1,330,606
Changes in Fair Value of Plan Assets		
Fair value of plan assets, beginning of year	<b>1,083,206</b>	1,157,346
Employer contributions	<b>17,756</b>	-
Employee contributions	-	-
Actual return on plan assets	<b>(42,774)</b>	15,441
Benefit payments	<b>(64,255)</b>	(89,581)
Fair value of plan assets, end of year	<b>993,933</b>	1,083,206

The following table presents the reconciliation of the funded status to the amount recognized in the consolidated statements of financial position as at:

	<b>2018</b>	2017	2016	2015	2014
	<b>\$</b>	\$	\$	\$	\$
Funded status – deficit					
Present value of benefit obligation	<b>(1,235,395)</b>	(1,330,606)	(1,370,532)	(1,267,798)	(1,347,246)
Fair value of plan assets	<b>993,933</b>	1,083,206	1,157,346	1,151,445	1,134,782
Effect of the asset ceiling	-	-	-	-	-
Funded status – deficit	<b>(241,462)</b>	(247,400)	(213,186)	(116,353)	(212,464)

  

	<b>2018</b>	2017	2016	2015	2014
	<b>\$</b>	\$	\$	\$	\$
Experience adjustment gain (loss) arising on:					
Plan liabilities	<b>75,104</b>	(5,243)	(113,893)	35,334	64,280
Plan assets	<b>(78,813)</b>	(21,829)	(29,649)	23,722	22,142

The interest cost in 2018 was \$44,148 (2017 - \$44,412) and the expected return on plan assets in 2018 was \$36,039 (2017 - \$37,271).

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**15. Employee Benefit Plan – cont'd**

The significant assumptions used are as follows:

	2018	2017
Accrued benefit obligation as of October 31		
Discount rate	3.40%	3.35%
Rate of compensation increase	3.00%	3.00%
Benefit costs for years ended October 31		
Discount rate	3.90%	3.40%
Expected long-term rate of return on plan assets	3.40%	3.35%
Rate of compensation increase	2.25%	2.25%

Plan assets are held in trust and their allocations were as follows:

	2018	2017
Asset Category		
Equity securities	49%	51%
Debt securities	51%	49%
Total	100%	100%

The following table presents the impact of changes in the major assumptions on the defined benefit obligation for the year ended October 31, 2018 and has some limitations. The sensitivities of each key assumption have been calculated without taking into account the changing of any other assumption. Actual results could therefore result in changes in other assumptions simultaneously. Any change in one factor may result in changes in another factor, which could amplify or reduce the impact of changes in key assumptions.

	Defined benefit obligation \$
(Increase) decrease	
Impact of 1% increase in discount rate	129,670
Impact of 1% decrease in discount rate	(155,608)

**16. 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		Class X (i)		Class X1 (ii)	
	#	\$	#	\$	#	\$
As at October 31, 2016	20,000,000	413,031	320,000	-	456,000	-
As at October 31, 2017	20,000,000	413,031	320,000	-	456,000	-
Share redemption (i)	-	-	(320,000)	-	(456,000)	-
Share issuance (ii)	6,233,830	2,766,259	-	-	-	-
Share split (iii)	14,953,281	-	-	-	-	-
Share issuance (iv)	215,897	86,359	-	-	-	-
Share issuance (v)	3,500,000	1,400,000	-	-	-	-
Share transaction costs (vi)	-	(6,500)	-	-	-	-
<b>As at October 31, 2018</b>	<b>44,903,008</b>	<b>4,659,149</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**16. Share Capital – cont'd**

- (i) All the Class X and X1 shares were redeemed during the 3<sup>rd</sup> quarter 2018. The shares were redeemed for \$239,505 and \$341,295, respectively.
  - (ii) On June 30, 2018, \$2,766,259 of convertible debentures were surrendered and converted into 6,233,830 Class A shares
  - (iii) On July 1, 2018 the Corporation subdivided the number of its issued and outstanding Class A shares on a 1.57 for 1 basis. Any resulting fraction was rounded up to the nearest whole number.
  - (iv) On July 1, 2018, \$86,359 of accrued interest on the debentures surrendered in (ii) was converted into 215,897 Class A shares.
  - (v) On July 31, 2018, the Corporation converted \$1,400,000 of loan payable to the ultimate Parent company into 3,500,000 Class A shares.
  - (vi) The share transaction costs were netted against the share capital account.
- (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 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:

	2018		2017	
	Number	Exercise Price	Number	Exercise Price
Options outstanding, beginning of year	<b>365,810</b>	<b>\$0.25</b>	1,066,000	\$0.25
Cancelled during the year	-	-	(833,000)	(\$0.25)
Increase as a result of stock split	-	-	132,810	\$0.16
Granted during the year	<b>1,375,000</b>	<b>\$0.40</b>	-	-
Options outstanding, end of year	<b>1,740,810</b>	<b>\$0.37</b>	365,810	\$0.16
Options exercisable, end of year	<b>536,858</b>	<b>\$0.37</b>	182,905	\$0.16

The following options were granted in the respective reporting periods:

For the period ended October 31, 2018

Number of options	Issue date	Expiry date	Exercise price	Fair value of options
400,000 <sup>(i)</sup>	September 17, 2018	September 17, 2025	\$0.40	\$0.27
650,000 <sup>(ii)</sup>	September 17, 2018	September 17, 2025	\$0.40	\$0.27
325,000 <sup>(iii)</sup>	September 17, 2018	September 17, 2025	\$0.40	\$0.27
<b>1,375,000</b>				

## 16. Share Capital – cont'd

- (i) The options vest 25% immediately and then 37.5% every year following the grant date.
- (ii) The options vest 25% immediately and then 25% every year following the grant date.
- (iii) 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 at October 31, 2018 are:

Number	Exercisable	Stock Price	Fair Value	Exercise price	Remaining contractual life
365,810	182,905	n/a	\$0.14	\$0.25	2.5
1,375,000	262,500	n/a	\$0.21 - \$0.23	\$0.40	6.9

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% - 2.31%
Volatility factor	69% - 90%
Expected life	3 - 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 2018 amounted to \$77,639 (2017 - \$82,389) recognized in contributed surplus.

## 17. Loss per Share

### Basic

Basic loss per share is calculated by dividing net loss by the weighted average number of commons shares outstanding during the period.

	<b>2018</b>	2017
	<b>\$</b>	\$
Net Loss for the year	<b>2,436,963</b>	3,618,785
Weighted average number of common shares outstanding	<b>35,653,069</b>	31,400,000
<b>Basic loss per share</b>	<b>0.07</b>	0.12

Effect of dilution from 1,740,810 stock options were excluded from the calculation of weighted average number of shares outstanding for diluted loss per share for the year ended October 31, 2018 as they are anti-dilutive. Effect of dilution from 365,810 stock options were excluded from the calculation of weighted average number of shares outstanding for diluted loss per share for the year ended October 31, 2017 as they are anti-dilutive.

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**18. Other Cash Flow Information**

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

	2018	2017
	\$	\$
Increase in trade receivables	(603,858)	(48,025)
Increase in inventory	(179,747)	-
(Increase) decrease in prepaid expenses	(3,076)	8,493
Increase in accounts payable and accrued liabilities	722,769	574,728
Decrease (increase) in income taxes	882,055	(199,641)
(Increase) decrease in other receivables	(26,178)	162,860
	<b>791,965</b>	<b>498,415</b>

Supplemental (non-cash) cash flow information

	2018	2017
	\$	\$
Increase in share capital on conversion of loans and debentures	4,252,618	-
Increase in deficit on redemption of X and X1 shares	580,800	-
Increase in deficit on dividend paid	64,726	-

Supplemental cash flow information

	2018	2017
	\$	\$
Cash interest paid during the year	35,878	85,496
Cash interest received during the year	821	368
Cash income taxes paid during the year	15,916	-
Cash income taxes received during the year	861,254	681,572

**19. Commitments**

(i) Operating lease

In April 2013, the Corporation renegotiated the lease for its rental premises for another 5-year term to expire in August 2019. The minimum lease payments amount to \$110,231 for the remaining term of the lease. The Corporation's operating lease agreement does not contain any contingent rent clauses.

(ii) Licensing agreement

Pursuant to the terms of the Zambon agreement (*note - 9(i)*), 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 royalty payments based on Net Sales at rates of 10-20% in any given year based on aggregate Net Sales levels achieved during the year.

**20. Net Product Revenues**

	2018	2017
	\$	\$
Net sales revenue	4,148,630	796,621
Agency revenue	233,051	480,868
	<b>4,381,681</b>	<b>1,277,489</b>

*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

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**20. Net Product Revenues – cont'd**

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.

**21. Selling, General and Administrative Expenses**

	<b>Note</b>	<b>2018</b> \$	<b>2017</b> \$
Depreciation of property and equipment	8	39,304	40,124
Amortization of intangible assets	9	5,170	-
Administrative expenses		1,122,945	976,699
Selling and marketing expenses		236,531	133,748
Write-down of product development costs		-	33,232
Product development costs		-	126,263
Employee compensation		1,771,617	1,778,563
Share based compensation	16(c)	77,639	82,389
Pension expense	15	8,110	7,142
		<b>3,261,316</b>	<b>3,178,160</b>

**22. Financial (Expenses) Income**

	<b>Note</b>	<b>2018</b> \$	<b>2017</b> \$
Accretion interest on the balance of sale	5	-	45,950
Interest on loans	13	(74,849)	(74,138)
Interest on debentures	13	(98,999)	(74,231)
Foreign exchange fluctuation		813	(5,080)
Credit facility costs and bank charges		(92,122)	(29,277)
		<b>(265,157)</b>	<b>(136,776)</b>

**23. Other Income**

	<b>2018</b> \$	<b>2017</b> \$
Interest income	816	368
Rental income	25,250	-
Service income	121,785	50,766
	<b>147,851</b>	<b>51,134</b>

Rental income is earned as a result of sub-lease arrangements at the Corporations head office. Service income represents quality control and finance services charged to a company renting office space at the Corporations head office.

**24. Segmented Information**

Management has determined that there is only one operating segment, as all companies in the Group are in the pharmaceutical industry. Revenues are generated by sales to wholesalers and other retailers in Canada. Three customers accounted for 88% of gross revenue in 2018 (2017 – 89%).

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**25. Related Party Transactions**

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

	2018 \$	2017 \$
Key management salary and benefits	835,183	819,780
Directors and employee stock option compensation	77,639	82,389
Consulting fee paid to a company controlled by an officer	22,500	-
Convertible debt and loans to shareholders	1,459,705	3,463,060

**26. Financial Instruments**

The classification of financial instruments at their carrying and fair values is as follows:

	2018 \$		
		Carrying Value	
	FVTPL	Loans and receivables	Fair
	Level 1	Level 3	Value
<b>Financial Assets</b>			
Cash	11,469	-	11,469
Trade receivables	-	730,761	730,761
Other receivables	-	153,364	153,364
	11,469	884,125	895,594

	2017 \$		
		Carrying Value	
	FVTPL	Loans and receivables	Fair
	Level 1	Level 3	Value
<b>Financial Assets</b>			
Cash	3,277	-	3,277
Trade receivables	-	126,903	126,903
Other receivables	-	127,186	127,186
Balance of sale receivable	-	201,108	201,108
	3,277	455,197	458,474

	2018 \$		
		Carrying Value	
	FVTPL	Other financial liabilities	Fair Value
<b>Financial Liabilities</b>			
Bank indebtedness (Level 1)	-	850,000	850,000
Accounts payable and accrued liabilities (Level 3)	-	2,054,052	2,054,052
Loans (Level 3)	-	95,843	95,843
Long-term loan (Level 3)	-	952,915	952,915
Convertible debt (Level 3)	-	506,790	506,790
	-	4,459,600	4,459,600

**26. Financial Instruments – Cont'd**

	2017 \$	Carrying Value	
		FVTPL	Other financial liabilities
			Fair Value
<b>Financial Liabilities</b>			
Bank indebtedness (Level 1)	-	980,000	980,000
Accounts payable and accrued liabilities (Level 3)	-	1,311,773	1,311,773
Long-term loan (Level 3)	-	673,469	673,469
Convertible debt (Level 3)	-	2,789,591	2,789,591
	-	5,754,833	5,754,833

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. There have been no transfers between the levels during the reporting period and the techniques and valuation methods used to determine fair value have not changed as compared to the previous period.

**27. 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.

The following presents the accounts that are exposed to foreign exchange volatility:

2018		
	USD / EUR	Total CDN Equivalent
Cash USD	541	711
Accounts Receivable USD	24,113	31,689
Accounts payable and accrued liabilities USD	(8,408)	(11,050)
Accounts payable and accrued liabilities EUR	(24,879)	(37,011)
2017		
	USD	Total CDN Equivalent
Cash USD	6,446	8,310
Accounts payable and accrued liabilities USD	(29,004)	(37,653)

- (ii) A 1% increase or decrease in the USD/CAD and EUR/CAD exchange rates would not have a material impact on net loss or equity at October 31, 2018 and 2017. The sensitivity analysis is based on the Corporation's foreign currency financial instruments held at each reporting date. Exposure to foreign exchange rates varies during the year depending on the volume of foreign transactions. Nonetheless, the analysis above is representative of the Corporation's exposure to exchange risk.

(iii) 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. Long-term debt negotiated at a fixed rate exposes the Corporation to fair value interest rate risk. In addition, the Corporation is exposed to gains and losses arising from changes in interest

**27. Financial Risk Factors – cont'd**

(iii) Cash flow and fair value interest rate risk - cont'd

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 or 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, 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 October 31, 2018, there are no trade receivables that are outstanding for more than 90 days from the date of invoice, and 100% are current (less than 30 days). As at October 31, 2018, three customers account for 88% (2017 – one customer accounted for 100%) 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 October 31, 2018 and 2017.

2018					
\$					
	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Financial Liabilities					
Bank Indebtedness	-	-	850,000	-	850,000
Accounts payable and accrued liabilities	1,212,634	803,175	38,322	-	2,054,131
Loans	-	-	95,843	-	95,843
Long-term loan	-	-	-	952,915	952,915
Convertible debt	-	-	-	506,790	506,790
	1,212,634	803,175	984,165	1,459,705	4,459,679

  

2017					
\$					
	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Financial Liabilities					
Bank Indebtedness	-	-	980,000	-	980,000
Accounts payable and accrued liabilities	899,273	312,517	99,983	-	1,311,773
Long-term loan	-	-	-	673,469	673,469
Convertible debt	-	-	-	2,789,591	2,789,591
	899,273	312,517	1,079,983	3,463,060	5,754,833

## **28. Capital Structure Financial Policy**

The Corporation considers capital to be composed of loans, convertible debt and shareholders' equity. At October 31, 2018, the Corporation has \$95,843 of loans with former shareholders, \$787,084 of long-term debt owed to the ultimate Parent company and \$672,621 of loans and convertible debt owed to minority shareholders.

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 in light of 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 (see – *note 30*) 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 October 31, 2018 the Corporation is not subject to any externally imposed capital requirements.

## **29. Comparative Figures**

Certain comparative figures have been reclassified to conform to the presentation adopted in the current fiscal year.

## **30. Subsequent Events**

- (i) A non-offering Prospectus was filed on December 21, 2018 with the securities regulatory authorities in each of the provinces and territories of Canada for the purpose of allowing the Corporation to become a reporting issuer in these jurisdictions and to become eligible for listing pursuant to the policies of the Canadian Securities Exchange ("CSE") in order to develop an organized market for the Corporation's Class A shares. Since no securities were offered pursuant to the Prospectus, no proceeds were raised, and all expenses incurred in connection with the preparation and filing of this Prospectus will be paid by the Corporation. This document was accepted by the Autorité des Marchés Financiers on December 27, 2018. Deferred share issue costs, which represent legal fees incurred by the Corporation in preparing its non-offering prospectus, will be deducted from equity in December 2018.
- (ii) 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 (see – *note 9(i)*).
- (iii) 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.
- (iv) In July 2018, Valeo launched a non-brokered private placement (the "Offering") of convertible debentures (the "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 (the "Conversion Price"). Prior to the listing of the Corporation's shares on the CSE, a total of \$1,400,000 was raised as part of this Offering. On February 15<sup>th</sup>, 2019, all outstanding Debentures, plus accrued and unpaid interest, were converted into shares at the conversion price, representing a total 3,500,000 shares.
- (v) On February 15, 2019 the shares of the Corporation were approved for listing on the CSE. Trading of the shares commenced February 20, 2019.