Annual Report 2019

Fiscal Year ended on

October 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and operating results of Valeo Pharma Inc. ("Valeo" or the "Corporation") for the year ended October 31, 2019. This document should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended October 31, 2019 which have been prepared in accordance with *International Financial Reporting Standards*. All amounts herein are expressed in thousands of Canadian dollars (unless otherwise indicated) except for share and per share amounts. All other currencies are in thousands. This discussion and analysis was prepared by management from information available as at February 27, 2020. Further information about Valeo Pharma Inc., including the Annual Information Form, is available online on SEDAR at www.sedar.com.

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.

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.

GLOSSARY TERMS

Abbreviations/Terms	Calendar & Financial
COGS	Cost of Product sold
EBITDA(L)	Net income (loss) before (i) provision for (recovery of) income taxes; (ii) interest (income) expense and other financing costs; (iii) depreciation; and (iv) amortization of intangible assets
G&A	General and Administrative
S&M	Sales and Marketing Expenses
SBC	Share-Based Compensation
FY-18	Fiscal Year 2018
FY-19	Fiscal Year 2019
FY-20	Fiscal Year 2020
Q3-19	Third quarter 2019
Q4-19	Fourth quarter 2019
Q4-18	Fourth quarter 2018
YTD	Year to date

Abbreviations/Terms	Corporate & Operations
Biosimilar	Biologic drug that is highly similar to a biologic drug already approved for sale.
CSE	Canadian Securities Exchange
DIN	Drug Identification Number
FDA	United States Food and Drug Administration
HC	Health Canada
INESSS	Quebec's Institut national d'excellence en santé et en services sociaux
LMWH	Low Molecular Weight Heparin
NDS	New Drug Submission with Health Canada
PD	Parkinson's Disease
VPI	Wholly owned subsidiary of Valeo focussed on the commercialization of generic products

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

For our branded prescription product division, Valeo's current and future product pipeline will include innovative products, with a focus on neurology, oncology, and hospital specialty products. Our second business division, niche hospital injectable products, consists primarily of licensing injectable generic drugs that are used in a hospital setting. On a selective basis, the Corporation may also acquire Canadian rights to non-hospital-based generics.

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

The Corporation has 27 full time employees and consultants including a team of eight (8) pharmaceutical representatives and medical science liaison staff. Valeo maintains a dedicated warehousing space in Kirkland, Quebec, to handle all the inventory requirements for Canada. Valeo's 20,000 square foot facility includes 14,000 square feet of storage space, three licensed narcotics vaults, the capability to handle cold chain requirements, and shipping needs. There is ample space in our warehouse to facilitate the addition of several new products to our growing Canadian portfolio.

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

Product Portfolio

As at the end of 2019, Valeo Pharma's product portfolio included five (5) commercial stage products as well as ten (10) products currently in pre-launch and or regulatory stage. Pre-launch stage products include products for which we already have obtained the DIN from HC, and where supplies are being arranged prior to launch. Regulatory stage products include products that have been filed with approvals pending, as well as products that Valeo intends to file over the 2020 fiscal year. The filing of some of these products may be postponed should Valeo not be able to fully access the information required for ensuring a successful review by HC.

Our product portfolio includes Synacthen a specialty neurology therapeutic product with 17 approved indications. The product was initially licensed for Canada from Mallinckrodt Pharmaceuticals and subsequently acquired by Atnahs Pharma UK Limited ("Atnahs"). Valeo has been marketing Synacthen since September 2014, for severe multiple sclerosis and for the treatment of gout. Due to a global supply shortage on this product, Canadian sales of Synacthen were halted at the end of the Q1-19. While we were hopeful that the supply would resume in 2020, we currently have no visibility as to the possible availability of Synacthen for commercialization in Canada. Please refer to the revenue and margin analysis section that presents the impact of Synacthen on our revenues and operating results in order to better illustrate the progress made in 2019 over the prior year.

Our list of products previously included Utrogestan licensed from Besins Healthcare in Q4-18. Approved by Health Canada, Utrogestan (micronized progesterone) is indicated for luteal phase support during in vitro fertilization cycles. The Corporation was expecting to start commercialization of Utrogestan in Q3-2019 however, due to a change in market dynamics which negatively impacted the potential retail price for Utrogestan, Valeo no longer intends to commercialize Utrogestan. Valeo is currently in the process of terminating the Utrogestan licence with Besins.

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

The regulatory environment is such that the average timeline from commencing the registration process to receiving marketing approval ranges from 12-18 months. For DIN transfers, the time between the signing of the license and the start of commercialization is approximately 6-9 months. Valeo possesses all the required expertise to manage all aspects relative to the filing, registration, as well as successfully launching 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. Our product portfolio is presented below:

Commercial Stage

Product	Indication	Partner	Regulatory, Commercial Status, and other important information
Onstryv® (License)	Idiopathic PD as an add-on for patients on stable dose of Levodopa (L-dopa) alone or in combination with other drugs, to help with "off" episodes.	*Zambon S.p.A*. ("Zambon"),	Onstryv® has been marketed since Q3-19 and is expected to reach peak sales within 3-5 years post launch. To date, sales of Onstryv® have exceeded expectations and the product has broad distribution within retail pharmacies across Canada. On February 6th, 2020, Valeo received notice of a positive recommendation by INESSS to the Quebec Health Minister for the inclusion of Onstryv® on the list of drugs covered by the Régie de l'assurance maladie du Québec.
M-Eslon (Distribution Agreement)	Extended release morphine sulphate used for pain management.	Ethypharm Inc. ("Ethypharm")	Agency agreement signed in August 2015 with sale of product recorded on a net basis. Since the start of with the 3rd quarter of 2018, Valeo has been assuming more commercial and quality control responsibilities and consequently revenues are now accounted for on a gross basis.
Ondansetron ODT (License)	Prevention of nausea and vomiting caused by cancer chemotherapy	European Generic Mfg.	The Corporation has acquired the marketing rights for Ondansetron ODT which is now commercially available in retail pharmacies across Canada.
Benztropine (Distribution)	Anticholinergic agent used for the treatment of PD	Asia/Pacific Generic Mfg.	Marketed in Canada since Q4-18, hospital specialty distribution.
Ethacrynate Sodium	Loop diuretic used to treat high blood pressure and associated swelling	Owned by Valeo worldwide except for Italy	Marketed in Canada since Q3-18, hospital specialty distribution.

Pre-launch / Regulatory Stage

Product	Indication	Partner	Regulatory, Commercial Status, and other important information
Redesca (Distribution Agreement)	Blood thinner	Undisclosed	During Q3-19, the Corporation acquired the Canadian rights to Redesca. The product is an injectable anticoagulant biosimilar drug used primarily to treat and prevent deep vein thrombosis and pulmonary embolism which represents a $200M market. Valeo filed an NDS in Q4-19. Following favorable screening by HC, marketing approval is expected before the end of FY-20 with commercialization to commence within a few months. Valeo would be the 4th player to enter the LMWH market in Canada. Several Canadian provinces have elected to favor biosimilar over branded LMWH.
Ethacrynate Sodium	Loop diuretic used to treat high blood pressure and associated swelling	Owned by Valeo worldwide except for Italy	Valeo has filed a registration dossier with the FDA. Marketing approval is expected in the first half of FY-20 with US sales to commence in the second half of FY-20 via Valeo's US distribution partner.
Pip-Tazo *(Piperacillin/ tazobactam)*	Injectable Antibiotic	European Generic Mfg.	Approved by HC, Valeo expects to start commercializing the product in the second half of FY-20
Yondelis *Trabectedin* (license)	Ovarian Cancer	PharmaMar S.A.	Approved by HC, Valeo has licensed the marketing authorization and expects to start commercializing the product in the second half of FY-20.
Hospital Products (5)	Pain management, Injectable Antibiotic and antifungal	Undisclosed partners	The Corporation has acquired the Canadian rights to five additional hospital products not yet approved in Canada. Regulatory filings have or will take place over the coming year but remain dependent on the availability of the required information. Marketing approval would follow within 12 months from the respective filings.

Other

Product	Indication	Partner	Regulatory, Commercial Status, and other important information
Synacthen (Distribution Agreement)	17 approved indications including several in neurology	Atnahs Pharma UK Limited ("Atnahs")	Valeo marketed this product between 2015 and 2019 for severe multiple sclerosis to approximately 100 neurology specialists across Canada as well as for gout. There is a global supply shortage for this product and Canadian sales have been halted at the end of the Q1-19. We currently have no visibility regarding the end of the product shortage. Once supply is. available, we will meet with HC to ensure the most optimal re-launch of this product.

2019 CORPORATE HIGHLIGHTS

Financial Results

- Net Revenues grew 50% over the prior fiscal year.
- Net Product Revenues from our current product pipeline (excluding Synacthen) grew 115 % over the prior fiscal year.
- Gross Margin grew 68 % over the prior fiscal year.
- Gross Margin (excluding Synacthen) grew 103% over the prior fiscal year.
- New products launched during the year represented 14% of total Net Revenues.
- Net loss after taxes of $3,615 in 2019 compared to $2,437 in 2018.
- $5.5 million total financings completed or secured during the year.

Products

- Canadian approval of Onstryv for the treatment of PD on January 15, 2019.
- License and Supply agreement with an undisclosed partner executed in March 2019 to secure the rights to three (3) products to be added to VPI's Hospital products portfolio.
- Benztropine approved by HC on March 21, 2019.
- Licensing agreement signed in July 2019 with an International pharmaceutical manufacturer for the exclusive rights to register, distribute and market Redesca, a LMWH biosimilar in Canada.
- Canadian launch of Onstryv® on July 10, 2019. In anticipation for the launch of Onstryv®, Valeo hired five (5) new sales representatives to have field representation in all key Canadian provinces.
- Canadian launch of Benztropine and Ondansetron ODT during the last quarter of FY-19.
- Filing of a registration dossier with the FDA for Ethacrynate Sodium. Marketing approval which is expected in the first half of FY-20 with US sales to commence in the second half of FY-20 via Valeo's US distribution partner.

Corporate Developments

- On February 20, 2019, the Corporation's shares commenced trading on the Canadian Securities Exchange under the symbol "VPH".
- On October 30, 2019, PricewaterhouseCoopers LLP replaced MNP LLP as the Corporation's auditors.

Financings

- Closing on February 20, 2019, of $1,400 worth of debentures and conversion of the debentures and accrued interest into shares at a price per share of $0.40.
- Closing on July 25th, 2019 of a public offering of units (the "Units") at a price of $0.50 per Unit (the "Offering Price") for aggregate gross proceeds of $3.1 million. Each Unit consisted of one class A share (a "Share") and one Share purchase warrant (a "Warrant"). Each Warrant is exercisable into one (1) Share (a "Warrant Share") at the price of $0.60 per Warrant Share for a period of 36 months from Closing. If, at any time prior to the expiry date of the Warrants, the volume weighted average trading price of the Shares on the CSE equals or exceeds $1.10 for 20 consecutive trading days, the Company may, within 15 days of the occurrence of such event, deliver a notice to the holders of Warrants accelerating the expiry date of the Warrants to the date that is 30 days following the date of such notice (the "Accelerated Exercise Period"). Any unexercised Warrants shall automatically expire at the end of the Accelerated Exercise Period. A total of 8,189,257 Warrants were issued and will expire on July 25, 2022. Following completion of the Offering, the Warrants commenced trading on the CSE under the symbol VPH.WT. Concurrently with closing of the Offering, certain related parties to the Company converted an aggregate of $982 in outstanding loans and accrued interest thereon into Units at a price equal to the Offering Price.

Subsequent to Year-end

- On November 14, 2019, the Corporation announced that its NDS for Redesca had been accepted for review by HC.
- On January 21, 2020, signing of a licensing agreement with PharmaMar for the exclusive rights to commercialize Yondelis® (trabectedin), a novel marine-derived antitumor agent.
- On February 6th, 2020, Valeo received notice of a positive recommendation by INESSS to the Québec Health Minister for the inclusion of Onstryv® on the list of medications covered by the Régie de l'assurance maladie du Québec.
- Closing on February 27, 2020 of a non-brokered private placement for $2,078 ($2.1 million) worth of unsecured convertible debentures at a price of $1 (one thousand) per Debenture. The debentures bear interest at a rate of 12% per annum with a maturity date of February 27, 2023. Each $1 (one thousand) debenture will be convertible at a price per Class "A" share equal to $0.40.

SELECTED FINANCIAL DATA

The following table sets forth financial information relating to the periods indicated and should be read in conjunction with the October 31, 2019 audited consolidated financial statements.

Consolidated Statements of Loss

	Q4-19	Q4-18	*Change*		2019	2018	*Change*	
	$	$	*$*	*%*	**$**	$	*$*	*%*
Revenues	**1,256**	1,750	*(494)*	*(28%)*	**6,577**	4,382	*2,195*	*50%*
Cost of Sales	**(1,115)**	(1,604)	*489*	*(30%)*	**(5,176)**	(3,549)	*(1,627)*	*46%*
Gross Margin %	**141**	146	*(5)*	*(3%)*	**1,401**	833	*568*	*68%*
Gross Margin %	11.2%	8.3%			21.3%	19.0%		
Expenses								
Sales & Marketing	**709**	197	*512*	*260%*	**2,011**	595	*1,416*	*238%*
General and administrative	**770**	816	*(46)*	*(6%)*	**2,802**	2,588	*214*	*8%*
Share-based compensation	**97**	71	*26*	*37%*	**325**	78	*247*	*317%*
Financial	**10**	46	*(36)*	*(78%)*	**131**	265	*(134)*	*(51%)*
Other income	**(52)**	(55)	*3*	*(5%)*	**(253)**	(293)	*40*	*(14%)*
	1,534	1,075	*459*	*43%*	**5,016**	3,233	*1,783*	*55%*
Net Loss before income taxes	**(1,393)**	(929)	*(464)*	*50%*	**(3,615)**	(2,400)	*(1,215)*	*51%*
Provision for (recovery) of income taxes	**-**	-	*-*	*-*	**-**	(37)	*37*	*(100%)*
Net loss for the year	**(1,393)**	(929)	*(464)*	*50%*	**(3,615)**	(2,437)	*(1,178)*	*48%*
Other comprehensive loss								
Exchange differences on translating foreign operations	**3**	(1)	*4*	*(400%)*	**-**	(3)	*3*	*(100%)*
Defined benefit plan, net actuarial loss	**(62)**	(10)	*(52)*	*520%*	**(133)**	(4)	*(129)*	*3,225%*
Total comprehensive loss	**(1,452)**	(940)	*(512)*	*54%*	**(3,748)**	(2,444)	*(1,304)*	*53%*
Loss per share								
Basic and diluted	**(0.02)**	(0.02)	*0*	*0%*	**(0.07)**	(0.07)	*0*	*0%*
Weighted average number of shares outstanding	**56,659,423**	44,903,010	*11,756,413*	*26%*	**49,588,556**	35,653,069	*13,935,487*	*39%*

	Q4-19 vs Q4-18	FY-2019 vs FY-2018
Revenues	• $494 decrease in revenues primarily due to the Synacthen back-order situation which accounted for a $422 difference with $364 revenues for Q4-18 vs ($58) in Q4-19. • Product Revenues decreased 5% between the two periods prior to considering sales of Synacthen.	• Strong 50% increase in Revenues. • The increase has been achieved despite the negative impact of the Synacthen back-order situation which represented a $1,191 difference between the two periods – $1,045 revenues in 2019 vs ($146) 2018. • The balance of the increase relates to the amendment of the Ethypharm contract in 2018. Valeo acted as principal for the sales of M-Eslon for 12 months in 2019, as compared to 6 months in 2018. • The launch of Onstryv® as well as Ondansetron ODT and Benztropine prior to YE-19 has contributed $953 of new product sales during the year. New products have contributed 14% of revenues in FY-19. • After removing the impact of Synacthen on our revenues for 2018 and 2019, revenues have grown 115% between the 2 periods.
Cost of Sales (COGS)	• Cost of Sales varies depending on the mix of products sold. Cost of Sales includes the supply or manufacturing price for products sold, royalties on sales as well as amortization of product rights. Such amortization was $50 in Q4-19, and $58 in FY-19, as compared to nil for each of Q4-18, and FY-18.	
Gross Margin and Gross Margin %	• Our gross margin continued to improve for each of Q4-19 and FY-19 despite the impact of the amortization of products rights for product launched during the year. Gross margin increased 68% between FY-18 and FY-19. The increase in gross margin % relates to improved product mix, including the impact of Onstryv® sales. The impact of product rights amortization in Q4-19, and FY-19 represented a 4% and 1% reduction of our gross margin % as compared to nil for each of Q4-18, and FY-18. After removing the impact of Synacthen for 2018 and 2019, gross margin grew 111% between the 2 periods.	
S&M expenses	• The S&M increase over prior 2018 periods reflect the set-up of a six (6) sales professional team to support the launch of Onstryv® in Q3-19, as well as incremental promotion for our expanding product pipeline.	
G&A expenses	• Our G&A expenses remained relatively stable despite the fact that Valeo became a reporting issuer following the listing of its shares on the CSE in Q2-19. The slight increase between FY-18 and FY-19 relates to incremental investors relation activities.	
Share-based compensation	• Relates to the issuance of stock options to new staff and board members.	

Financial expenses	• Decrease due to the conversion of debentures into shares. Balance of interest relates to the Corporation's use of its line of credit with a chartered bank.
Other income	• Stable between the periods. The Corporation continues to provide back-office, regulatory and other consulting services as a mean of leveraging its staff's expertise.
Net loss for the period	• The bulk of the $1,178 increase in our net loss between FY-18 and FY-19 is due to the $,416 increase in S&M expenses (see above) which have not been completely offset by the increase in gross margin.

EBITDA(L) Reconciliation

The following table provides a reconciliation of net loss to EBITDA(L) for Q4-19, and FY-19 as compared to 2018 periods.

	Q4-19	**Q4-18**	***Change***		**YTD-19**	**YTD-18**	**Change**	
	$	$	$	%	$	$	$	%
Net loss for the quarter	**(1,393)**	(929)	(464)	*50%*	**(3,615)**	(2,437)	(1,178)	*48%*
Add (deduct)								
Provision for income income taxes	**0**	0	-	-	**0**	37	(37)	*(100%)*
Interest expense	**8**	33	(25)	*(76%)*	**110**	210	(100)	*(48%)*
Depreciation	**32**	10	22	*220%*	**66**	39	27	*68%*
Amortization of intangible assets	**54**	3	51	*1,700%*	**71**	5	66	*1,327%*
EBITDA(L)	**(1,299)**	(883)	(416)	*47%*	**(3,368)**	(2,146)	(1,222)	*57%*

Consolidated Balance Sheet Highlights

As at,	**31-Oct-19**	31-Oct-18	***Change***	
	$	$	$	%
Cash	335	11	*324*	*2,945%*
Current assets	1,651	1,044	*607*	*58%*
Total assets	5,807	3,385	*2,422*	*72%*
Current liabilities	4,477	3,051	*1,426*	*47%*
Long-term loans, debentures and pension obligation	1,352	1,701	*(349)*	*(21%)*
Share Capital	8,829	4,659	*4,170*	*90%*
Contributed Surplus	592	267	*325*	*122%*
Deficit	(9,716)	(6,101)	*(3,615)*	*59%*

	FY-2019 vs FY-2018
Cash	• Cash position reflects the collection of a $1,000 loan advance to be converted into the convertible debenture announced on November 6, 2019.
Current assets	• Reflects the increase of inventory required to support our growing portfolio of products.
Total assets	• The increase relates to the growth of our short-term assets but also includes a $1,876 increase in intangible assets as a result of the $1,000 milestone to Zambon, our Onstryv® partner, as well as other additions to intangibles required to grow our product pipeline.
Current liabilities	• Main increase relates to accounts payables including the $1,000 Zambon milestone which has since been partly paid ($350) during Q1-20, with the remaining balance extended until Q1-21.
Long-term loans, debentures and pension obligation	• $507 debentures outstanding at YE-18 were converted into shares in February 2019, while loans totaling $953 were converted into units in July 2019. FY-19 balance includes a $1,000 contribution into the Corporation's debenture offering announced following year-end.
Share Capital	• Reflect the issuance of units and the conversion of loans and debentures into shares or units during FY-19
Contributed Surplus	• $325 increase relates to the stock-based compensation charged during the year.
Deficit	• Increase reflects the performance of the Corporation during the year – Statement of Loss

Revenue and Margin Analysis

The following section provides additional information relative to the nature of our revenues which have been impacted by the change in the Ethypharm contract in July 2018, as well as Synacthen product shortage in Q2-19. Our gross margins reflect the contribution from the various products sold as well as the agency revenues for Q1-18 and Q2-18. Also, starting in Q3-19 royalties on sales of Onstryv are include in our COGS, and we have started amortizing our license fees as part of our COGS. This non-cash item will impact our gross margins for the duration of Zambon license.

	Q4-19	Q4-18	*Change*		**YTD-19**	YTD-18	*Change*	
	$	$	*$*	*%*	**$**	$	*$*	*%*
Product revenue	**1,256**	1,750	*-494*	*-28%*	**6,577**	4,149	*2,428*	*59%*
Agency revenue	**-**	-	-	-	**-**	233	-	-
Total Revenues	**1,256**	1,750	*-494*	*-28%*	**6,577**	4,382	*2,195*	*50%*
COGS	**-1,115**	-1,604	*489*	*-30%*	**-5,176**	-3,549	*-1,627*	*46%*
Gross margin	**141**	146	*-5*	*-3%*	**1,401**	833	*568*	*68%*
Gross margin %	**11.2%**	8.3%	*2.9%*	*35%*	**21.3%**	19.0%	*2.3%*	*12.1%*
Additional Information without Synacthen and Agency Revenues								
Product revenues [(1)]	**1,314**	1,386	*-72*	*-5%*	**6,665**	3,095	*3,570*	*115%*
Gross Margin [(1)]	**149**	99	*50*	*51%*	**1,420**	466	*954*	*204%*
Gross Margin % [(1)]	**11.9%**	5.7%	*6.2%*	*110%*	**21.6%**	10.6%	*10.9%*	*102.8%*

(1) Numbers adjusted to present product revenues only, and margins after eliminating Synacthen revenues and COGS

FY-19 revenues reached $6,577 compared to $4,382 in 2018 representing a 50% increase. Product revenues (excluding agency revenues) have increased by 58% between the two periods after eliminating the $233 agency revenues in FY-18. The additional information presented above illustrates the strong increase in product margins. Gross margins from product sales have increased 204% between FY-18 and FY-19 after eliminating the impact of Synacthen. Also, the gross margin % on product revenues has more than doubled at 21.6% for FY-19 as compared to 10.6% for FY-18 after eliminating the impact of Synacthen on our results. This demonstrates our improved revenue mix as we launch more profitable products.

The significant increase in revenues can be explained as follows:

Sales of New Products

- The most important factor impacting our Revenues for 2019 has been the successful launch of Onstryv during Q3-19. The product is marketed to Canadian neurologists and has retail pharmacy distribution across Canada. Following a strong start, we expect Onstryv sales to increase with prescription growth. Reimbursement is an important element to ensure maximum patient access to the product. Onstryv is currently covered by several major private plans and Valeo expects to secure provincial listing and reimbursements over the coming quarters. The positive recommendation by INESSS (see Product Portfolio section) is an important step towards national reimbursement coverage for Ontryv.
- Sales of Ethacrynate Sodium have improved since we launched the product in Q3-18. Sales result mainly from procurement tenders with Group Purchasing Organizations ("GPOs") and opportunistically when there are market shortages. During the current year, sales of Ethacrynate Sodium have picked up and although remaining nominal, our 70-80% gross profit margin for this product has impacted positively our gross margin.
- During the last quarter of our fiscal year two additional products, Benztropine and Ondansetron ODT, were commercialized. Although the sales contribution for these products was nominal in fiscal 2019, we are highly confident that sales of these products will increase significantly in FY-20 thereby materially impacting both our total revenues and our gross margins. VPI products require nominal S&M efforts and their gross margin contribution will have a direct improvement of our net results.
- Excluding Synacthen, Valeo now has five (5) products contributing to its product revenues compared to three (2) products a year ago.

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

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

Product revenues for the Ethypharm products represented two quarters in FY-18, as compared to four quarters in FY-19. Agency revenues were collected for two quarters in 2018, and nil in 2019.

Other factors impacting our revenues

Synacthen

Prior to the end of Q1-19, sales of Synacthen were halted due to a global supply shortage. In order to satisfy demand for this medically important drug, Valeo continued shipments up to the product's expiry date of February 28, 2019. During the first two quarters of 2019, our clients returned all unsold and unused units to Valeo. As Synacthen is on global shortage, Valeo was not able to replace these returned units with new supplies. Under our agreement with Atnahs (previously Mallinckrodt), the cost of all products returned are billed back to Atnahs at cost. However, as a result of our inability to supply replacement units, Valeo's revenues for FY-19 were negatively impacted by a total of $477 worth of Synacthen product returns including $58 in Q4-19. As a result of the product returns, our FY-19 sales of Synacthen are negative at $(146) as compared to record sales in 2018 of $1,045. The product has no alternative in Canada and Valeo is the only supplier of Synacthen. When sales of Synacthen resume, the Company does not expect to suffer any market share loss as a result of the supply shortage. We currently have no visibility as to when the global shortage of Synacthen will be fixed.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4-19	Q3-19	Q2-19	Q1-19	**Q4-18**	Q3-18	Q2-18	Q1-18
Net Product Revenue	**1,256**	2,569	981	1,771	**1,750**	2,111	167	121
Agency revenue	**-**	-	-	-	**-**	-	109	125
COGS	**(1,256)**	(1,689)	(863)	(1,509)	**(1,604)**	(1,677)	(160)	(108)
Gross Margin	**141**	880	118	262	**146**	434	116	138
S&M	**709**	335	441	527	**197**	124	162	112
G&A	**770**	548	775	708	**816**	603	596	572
Share-Based Compensation	**97**	111	84	33	**71**	2	2	2
Financing expense	**10**	42	31	48	**46**	97	57	66
Other income	**(52)**	(64)	(73)	(65)	**(60)**	(65)	(22)	(2)
Impairment of Investment	**-**	-	-	-	**5**	-	-	-
Recovery of balance of sale	**-**	-	-	-	**-**	-	(150)	-
Net loss before taxes	**(1,393)**	(92)	(1,140)	(989)	**(929)**	(327)	(529)	(612)
Recovery of (provision for) income tax	**-**	-	-	-	**-**	5	(42)	-
Net loss for the quarter	**(1,393)**	(92)	(1,140)	(989)	**(929)**	(322)	(571)	(612)

Notes	**Valuable information**
Net Product Revenues	• Increase in net product revenues starting in Q3-18 related to the amendment of the agreement with Ethypharm (See- Revenue Analysis section). • The strong increase in product revenues in Q3-19 was due to the highly successful launch of Onstryv®. • Following a strong launch in Q3-19, Onstryv® sales have been nominal in Q4-19 as the sales channel depletes its initial orders to fulfill growing patient prescriptions. We expect sequential market share gains to impact our results going forward. • Launch of Ondansetron and Benztropine took place late in FY-19. Impact of these two products should be material in FY-20.
Agency Revenues	• Prior to Q3-18, revenue from the agency agreement was recognized net of cost of goods sold. At the start of Q3-18, the agency contract was amended, and revenues from that contract are now recognized on a gross basis.
COGS / Gross Margin	• Fluctuates with total revenues as well as the mix of product sales. • In Q3-19, gross margin was impacted by successful launch of Onstryv®. • The Corporation starts amortizing product rights previously capitalized as intangible assets upon the launch of the respective products. Amortization for the Onstryv® license fees have stated in Q3-19.
S&M expenses	• S&M increase reflects the set-up of a six (6) sales professional team to support the launch of Onstryv® in Q3-19, as well as incremental promotion for our expanding product pipeline.
G&A expenses	• Remained relatively stable over the reported periods despite the fact Valeo became a reporting issuer following the listing of its shares on the CSE in Q2-19. During the FY-18, the Corporation added a new CFO in preparation for the CSE listing of its shares. Incremental investors relation activities have impacted G&A starting Q2-19.
Share-Based Compensation	• Represents the costs of issuing stock options. Fluctuation between quarters is due to the hiring of staff and addition of Board members.
Financial expenses	• Our financial expenses have decreased over the reported periods flowing the sequential conversion of loans and debentures into shares or units (February 2019, and July 2019 financing).
Other (Income) expenses	• Stable between the periods. The Corporation continues to provide back-office, regulatory and other consulting services as a mean of leveraging its staff's expertise.

Net loss	• Net loss has increased over the reported period as the Corporation expanded its management and S&M team in preparation for listing of its shares on the CSE and the launch of several products. Net loss should reduce sequentially over time, as Valeo adds revenues from the launch of new products and secures incremental market share for products already on the market.

LIQUIDITIES AND CAPITAL RESSOURCES

Sources and Uses of Cash	**Q4-19**	**Q4-18**	*Change*		**YTD-19**	**YTD-18**	*Change*	
	$	$	*$*	*%*	**$**	$	*$*	*%*
Operating activities:								
Net loss from operations	**(1,393)**	(929)	*(464)*	*50%*	**(3,615)**	(2,437)	*(1,178)*	*48%*
Other Items not affecting cash	**124**	392	*(268)*	68%	**664**	294	*370*	126%
Changes in non-cash working capital	**1,103**	336	*767*	228%	**644**	792	*(148)*	(19%)
Cash used in operations	**(166)**	(201)	*35*	(17%)	**(2,307)**	(1,351)	*(956)*	71%
Investing activities:								
Cash (used) provided by investing activities	**(209)**	8	*(217)*	(2,713%)	**(923)**	63	*(986)*	(1,565%)
Financing activities:								
Cash provided by financing activities	**710**	188	*522*	278%	**3,553**	1,300	*2,253*	173%
Foreign exchange loss (gain) on cash	**0**	(1)	*1*	(100%)	**1**	(4)	*5*	(125%)
Increase (decrease) in cash	**335**	(5)	*340*	(6,800%)	**324**	8	*316*	3,950%
Cash, beginning of period	**0**	16	*(16)*	(100%)	**11**	3	*8*	267%
Cash, end of period	**335**	11	*324*	2,945%	**335**	11	*324*	2,945%

	Q4-19 vs Q4-18	**FY-2019 vs FY-2018**
Cash used in operations	• Cash used in operations was $116 for Q4-19, representing a $25 improvement over Q4-18.	• Cash used in operations represents the cash flows from operations, excluding income and expenses not affecting cash. Cash used in operations for the period excluding the change in non-cash working capital was $2,307 compared to $1,351 in the prior year period. Major items and non-cash included in operations in FY-19 were: (i) 3,606 net loss from operations (up 48% from YTD-18), (ii) $325 of share-based compensation compared to $78 for FY-18 and (iii) $100 of provision for sales returns versus $52 in FY-18. • Changes in non-cash working capital components provided $644 of cash in the period compared to $792 in 2018.
Cash used in investing activities	• Cash used in investing activities was $209 for Q4-19, representing $217 more than Q4-18 at $8. • The use of cash relates to addition to our intangibles.	• Cash used by investing activities in the period was $923 as compared to cash provided of $63 in FY-18. In FY-19, $920 was invested to acquire intangible assets. During FY-19, Valeo has carried many initiatives aimed at increasing the value of its licensed product portfolio, including 1) activities related to several product filings and interaction with HC, 2) in-licensing activities, as well as 3) activities for securing the listing and reimbursement of its approved products. We expect those activities to vary from quarter to quarter but to continue over the next few years.
Cash provided by financing activities	• Financing activities contributed $710 during Q4-19 as compared to $188 in Q4-18. The Corporation collected a $1,000 loan to be converted into the corporation's debenture offering announced subsequent to the end of the year.	• During FY-19, financing activities provided cash of $3,553 compared to $1,300 in FY-18. In FY-19, a total of $900 was raised by issuing debentures convertible into Common Shares of Valeo upon listing of the Corporation's shares on a Canadian Securities Exchange, $3,113 through the issuance of the Corporations units as part of the July 2019 financing, and $1,000 loan to be converted into the into the corporation's debenture offering announced subsequent to the end of the year. The balance related to debt repayment, bank overdraft and share and unit issue costs.

Liquidity and Capital Resources

Going Concern

This MD&A have been prepared on a going-concern basis, which implies that the Corporation will continue realizing its assets and discharging liabilities in the normal course of business for the foreseeable future. As reflected in the annual audited financial statements, the Company is in the process of ramping up its activities and has not yet achieved profitability. During the year ended October 31, 2019, The Company's incurred a net loss of $3.6 million, used cash in operations of $2.3 million and has a working capital deficiency of $2,8 million. This raises significant doubt about the Company's ability to continue as a going concern.

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 and ultimately on generating future profitable operations. Subsequent to the end of the year, management was successful in raising additional capital to mitigate the working capital deficiency (*see Subsequent Events*). Management anticipates that the commercialization of new products and the generation of additional revenues out of its existing products will enable the Company to achieve profitability. There is no assurance that any of these initiatives will be successful. Factors within and outside the

Corporation's control could have a significant bearing on its ability to obtain additional financing or on the generation of additional revenues.

The annual 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.

As at,	**Q4-19**	Q4-18	*Change*		**31-Oct-19**	31-Oct-18	*Change*	
	$	$	*$*	*%*	**$**	$	*$*	*%*
Cash	**335**	11	*324*	*2,945%*	**335**	11	*324*	*2,945%*
Working Capital (i)	**(2,826)**	(2,007)	*(819)*	*41%*	**(2,826)**	(2,007)	*(819)*	*41%*
Total assets	**5,807**	3,385	*2,422*	*72%*	**5,807**	3,385	*2,422*	*72%*

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

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

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

Also, the Corporation's prior initiatives related to product acquisition rights and regulatory filings should lead to a series of product launches over the coming quarters. In addition to the launch of Onstryv in Q2-19, as well as Ondansetron ODT and Benztropine in Q4-19, the Corporation expects to launch four more products during the FY-20 directly or through its US distributor.

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

Transactions with Related Parties

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

	2019	2018
	$	$
Key management salary and benefits	**789**	835
Directors and employee stock option compensation	**325**	78
Consulting fee paid to a company controlled by an officer	**196**	23

Off balance sheet arrangements

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

Risk Management

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

(a) Market risk

(i) Currency risk

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

(ii) Cash flow and fair value interest rate risk

The Corporation is exposed to fluctuation in its future cash flows arising from changes in interest rates through its variable rate financial assets and liabilities. Convertible loans and long-term debt negotiated at a fixed rate expose the Corporation to fair value interest rate risk. In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which includes marketability risk, through

its investments in financial instruments which are carried at fair value. The Corporation does not believe that the results of operations nor cash flows would be materially affected to any significant degree by a sudden change in market interest rates relative to interest rates on its financial assets and liabilities.

(b) Credit Risk

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

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

(c) Liquidity Risk

Liquidity available via the Corporation's operating activities and credit facilities will provide the Corporation with a large portion of the funds needed to meet its short-term financial obligations that are due as of October 31, 2019. Long term loans and convertible debt held by the Corporation's shareholders also contribute to fund operations.

(d) Specific Risks

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

Management of Capital

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

RECENTLY ADOPTED ACCOUNTING POLICIES

IFRS 15, Revenue from Contracts with Customers

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

The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgement thresholds have been introduced which may affect the timing of revenue recognized. The Corporation records revenue from contracts with customers in accordance with the five steps outlined in IFRS 15 as follow: (i) Identify the contract with a customer; (ii) Identify the performance obligation in the contract; (iii) Determine the transaction price, which is the total consideration provided by the customer; (iv) Allocate the transaction price among the performance obligations in the contract based on their relative fair values and (v) Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The Corporation has elected to adopt IFRS 15 using the cumulative effect method as of the date of initial application on November 1st, 2018, with no restatement of comparative period amounts. As the effect of adopting IFRS 15 did not have an impact on the consolidated financial statements, there was no adjustment made to the opening balance of deficit at the date of the initial application. As a result of the application of this new standard, where a right of return exists, the Corporation records an asset and a refund liability when revenue is recorded.

IFRS 9 Financial Instruments

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

retrospectively, except where described below.

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business model under which they are held. At initial recognition, financial assets are measured at fair value and subsequently classified as either amortized cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income. The adoption of IFRS 9 did not result in a change in the carrying values of any of the Corporation's financial assets on the transition date.

Financial liabilities are recognized initially at fair value, and in the case of financial liabilities, not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The adoption of IFRS 9 did not result in a change in the carrying values of any of the Corporation's financial liabilities on the transition date.
The following table presents the classification impacts on the financial assets and liabilities upon the adoption of IFRS 9. There was no significant impact with regards to the measurement of the financial assets and liabilities.

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

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

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

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

	Measurement	**31-Oct-19** **$**	31-Oct-18 $
Financial assets:			
Cash	Fair value through profit or loss	**335**	11
Trade receivables	Amortized cost	**382**	731
Other receivables	Amortized cost	**231**	154
Financial liabilities:			
Bank overdraft	Amortized cost	**-**	-
Bank indebtedness	Amortized cost	**-**	850
Account payable and accrued liabilities	Amortized cost	**4,377**	2,053
Loans	Amortized cost	**-**	96
Long term loans	Amortized cost	**1,001**	953
Convertible debentures	Amortized cost	**-**	507

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

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

Recent Accounting Pronouncement

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 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. The new standard eliminates the classification of leases as either operating or finance leases for lessees and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value (less than $5). On November 1st, 2019 the Corporation will apply the new standard retrospectively without restatement of comparative amounts Comparative information is still reported under IAS 17 and IFRIC 4. The new standard requires lessees to recognize a lease liability representing future lease payments and a "right-of-use asset" for virtually all lease contracts, and record it on the balance sheet, except with respect to lease contracts that meet limited exception criteria. The Corporation will elect the modified retrospective approach measuring the right-of-use asset at an amount equal to the lease liability. There will be an increase to both assets and liabilities upon adoption of IFRS 16 and changes to the presentation of expenses associated with the lease arrangements.

On initial adoption, the Corporation will apply the following practical expedients permitted under the standard: (i) short-term leases and leases of low value assets that have been identified at November 1st , 2019 will not recognized on the consolidated balance sheet; (ii) leases with terms ending within 12 months of November 1st , 2019 will be treated as short-term leases and will not been recognized on the consolidated balance sheet; (iii) contracts that were not previously identified as containing a lease under the previous standard will not been reassessed under IFRS 16; (iv) initial direct costs will be excluded from the measurement of right-of-use assets for the purpose of initial measurement on transition; (v) a single discount rate will be used for remaining lease payments on leases with similar characteristics; (vi) the Corporation will elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition; (vii) instead of performing an impairment review on the right-of-use assets at the date of initial application, the Corporation will rely on historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

The Corporation quantified the impact of IFRS 16 adoption on the fiscal 2020 opening balance sheet. The Corporation's preliminary assessment indicates that the increases in both its total assets and total liabilities will be approximately $341 on the consolidated balance sheet as at November 1st, 2019. The Corporation is in the final stages of validating the final amounts of the impact on its consolidated balance sheet which will be disclosed in the Corporation's unaudited condensed interim financial statements of the first quarter of fiscal year 2020. Therefore, there could be changes in the amounts specified above.

Lease related expenses previously recorded in general and administrative costs will be recorded as depreciation using a straight-line method on the right-of-use asset and the lease liability will be unwound using an effective interest rate method and recorded as financial expense. The application of these two methods will result in more expenses charged to net loss earlier in the lease term and less expenses charged in the later years. The lease term is five years.

Statement of Compliance

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

Use of Estimates and Judgements

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

SUBSEQUENT EVENTS

(i) On February 27, 2020, the Corporation completed a non-brokered private placement for $2,078 worth of unsecured convertible debentures at a price of $1 (one thousand) per Debenture. The debentures bear interest at a rate of 12% per annum with a maturity date of February 27, 2023. Each debenture will be convertible at a price per Class "A" share equal to $0.40.

Consolidated Financial Statements

Valeo Pharma Inc.

October 31, 2019

Management's Responsibility

To the Shareholders of Valeo Pharma Inc.,

Management is responsible for the preparation and presentation of the accompanying audited annual 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 audited annual 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 a majority 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.

PwC, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the annual consolidated financial statements and report directly to them; their report follows. The external auditors had full and free access to, and met separately with the Board, the Audit Committee and management to discuss their audit findings.

February 27, 2020

"Steven Saviuk"
_____
Chief Executive Officer

"Luc Mainville"
_____
Chief Financial Officer

Independent auditor's report

To the Shareholders of
Valeo Pharma Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Valeo Pharma Inc. and its subsidiaries (together, the Company) as at October 31, 2019 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at October 31, 2019;
- the consolidated statement of loss and comprehensive loss for the year then ended;
- the consolidated statement of changes in shareholders' deficit for the year then ended;
- the consolidated statement of cash flow for the year then ended; and
- the notes to consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
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Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Comparative information

The financial statements of the Company for the year ended October 31, 2018 were audited by another auditor consolidated, who expressed an unmodified opinion on those consolidated financial statements on February 26, 2019.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Pascale Lavoie.

PricewaterhouseCoopers LLP[1]

Québec, Quebec
February 27, 2020

[1] CPA auditor, CA, public accountancy permit No. A124423

Valeo Pharma Inc.

Consolidated Statements of Financial Position

(All in thousands of Canadian dollars)

As at October 31,	Notes	2019	2018
ASSETS			
Current			
Cash		**335**	11
Trade and other receivables	*4*	**613**	885
Inventory	*5*	**561**	95
Prepaid expenses		**142**	53
Total current assets		**1,651**	1,044
Property and equipment	*6*	**296**	310
Intangible assets	*7*	**3,860**	1,984
Deferred share issue costs		**-**	47
Total assets		**5,807**	3,385
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current			
Operating loan	*8*	**-**	850
Trade accounts payables	*9*	**3,838**	1,558
Other accounts payable and accrued liabilities	*9*	**539**	495
Provision for product returns	*10*	**100**	52
Loans	*11*	**-**	96
Total current liabilities		**4,477**	**3,051**
Long-term loans	*11*	**1,001**	953
Convertible debentures	*11*	**-**	507
Defined benefit obligation	*13*	**351**	241
Total liabilities		**5,829**	**4,752**
SHAREHOLDERS' DEFICIT			
Share capital	*14*	**8,829**	4,659
Warrants	*14*	**598**	-
Contributed surplus	*14*	**592**	267
Deficit		**(9,716)**	(6,101)
Accumulated other comprehensive loss		**(325)**	(192)
Total shareholders' deficit		**(22)**	**(1,367)**
Total liabilities and shareholders' deficit		**5,807**	**3,385**

Going concern (note 1); Related Party Transactions (note 23); Commitments (note 27); Subsequent events (note 28)

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

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

Valeo Pharma Inc.

Consolidated Statements of Loss and Comprehensive Loss

(All amounts in thousands of Canadian dollars, except for share and per share amounts)
For the years ended October 31, 2019 and 2018

	Notes	**2019**	2018
Revenues	*17*	**6,577**	4,382
Cost of Goods Sold		**(5,176)**	(3,549)
Gross Profit		**1,401**	833
Expenses			
Sales and marketing	*18*	**2,011**	595
General and administrative	*19*	**2,802**	2,588
Share based compensation	*14*	**325**	78
Financial	*20*	**131**	265
Other income	*21*	**(253)**	(293)
Total		**5,016**	3,233
Net loss before income taxes		**(3,615)**	(2,400)
Provision for income taxes			
Current		**-**	(37)
Net loss for the year		**(3,615)**	(2,437)
Other comprehensive loss			
Exchange differences on translating foreign operations		**-**	(3)
Defined benefit plan, net actuarial loss		**(133)**	(4)
Total comprehensive loss		**(3,748)**	(2,444)
Loss per share:			
Basic and diluted		**(0.07)**	(0.07)
Weighted average number of shares outstanding		**49,588,556**	35,653,069

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

Valeo Pharma Inc.

Consolidated Statements of Changes in Shareholders' Deficit

(All amounts in thousands of Canadian dollars)

For the years ended October 31, 2019 and 2018

		Share Capital				Accumulated Other Comprehensive Loss		
	Notes	Common Shares	Warrants	Deficit	Contributed surplus	Defined benefit plan	Foreign exchange translation	Total
Balance as at October 31, 2017		413	-	(3,018)	189	(155)	(30)	(2,601)
Net loss		-	-	(2,437)	-	-	-	(2,437)
Other comprehensive loss		-	-	-	-	(4)	(3)	(7)
Conversion of debentures to shares		2,853	-	-	-	-	-	2,853
Conversion of loans to shares		1,400	-	-	-	-	-	1,400
Share issue costs		(7)	-	-	-	-	-	(7)
Share based compensation		-	-	-	78	-	-	78
Redemption of X and X1 shares		-	-	(581)	-	-	-	(581)
Dividends paid		-	-	(65)	-	-	-	(65)
Balance as at October 31, 2018		4,659	-	(6,101)	267	(159)	(33)	(1,367)
Net loss		**-**	-	**(3,615)**	**-**	**-**	**-**	**(3,615)**
Other comprehensive loss		**-**	-	**-**	**-**	**(133)**	**-**	**(133)**
Share based compensation	*14*	**-**	-	**-**	**325**	**-**	**-**	**325**
Conversion of debentures to shares	*14*	**1,427**	-	**-**	**-**	**-**	**-**	**1,427**
Conversion of loans to shares	*14*	**815**	**167**	**-**	**-**	**-**	**-**	**982**
Issuance of units	*14*	**2,583**	**529**	**-**	**-**	**-**	**-**	**3,112**
Unit issue costs	*14*	**(655)**	**(98)**	**-**	**-**	**-**	**-**	**(753)**
Balance as at October 31, 2019		**8,829**	**598**	**(9,716)**	**592**	**(292)**	**(33)**	**(22)**

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

Valeo Pharma Inc.

Consolidated Statements of Cash Flow

(All amounts in thousands of Canadian dollars)
For the years ended October 31, 2019 and 2018

	Notes	2019	2018
OPERATING ACTIVITIES:			
Net loss from operations		**(3,615)**	(2,437)
Add (deduct) items not affecting cash:			
Depreciation of property and equipment	*6*	**39**	39
Amortization of intangible assets	*7*	**96**	5
Provision for sales returns	*10*	**100**	52
Share based compensation	*14*	**325**	78
Share issue costs		**21**	-
Interest expense		**74**	174
Defined benefit pension expense		**9**	8
Unrealized loss on foreign exchange		**24**	16
Recovery of balance of sale		**-**	(150)
Payment of interest on short term debt		**(5)**	-
Write down of inventory		**-**	85
Funding of defined benefit plan		**(20)**	(18)
Impairment of investment in associate		**-**	5
Net change in non-cash operating working capital	*16*	**645**	792
Cash used by operating activities		**(2,307)**	(1,351)
INVESTING ACTIVITES:			
Proceeds from balance of sale	*21*	**-**	351
Acquisition of property and equipment		**(25)**	(15)
Acquisition of intangible assets		**(920)**	(308)
Reimbursement of acquisition costs of intangible assets		**22**	35
Cash (used) provided by investing activities		**(923)**	63
FINANCING ACTIVITIES:			
Decrease in operating loan		**(850)**	(130)
Increase in loans from shareholders		**1,900**	984
Repayment of debt		**(97)**	-
Increase in debentures		**-**	500
Issuance of units		**3,113**	-
Payment of unit issue costs		**(288)**	-
Payment of share costs		**(49)**	(47)
Payment of share issue costs		**(176)**	(7)
Cash provided by financing activities		**3,553**	1,300
Foreign exchange loss (gain) on cash		**1**	(4)
Increase in cash		**324**	8
Cash, beginning of year		**11**	3
Cash, end of year		**335**	11

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

1. Presentation of Financial Statements and Going Concern

Description of the Business

Valeo Pharma Inc. (the "Corporation" and or "Valeo") is a pharmaceutical company that acquires and markets specialty products. Its head office is located at 16667 Hymus Blvd., Kirkland, Quebec, Canada. The Corporation's wholly owned subsidiary VPI Pharmaceuticals Inc. ("VPI") is located within the Corporation's premises, and Valeo Pharma Corp ("Valeo USA") is located in the United States (not active). The Corporation is incorporated under the Canada Business Corporations Act and its shares and warrants are listed on the Canadian Stock Exchange ("CSE") under the symbol VPH and VPH.WT.

Statement of Compliance

These consolidated financial statements of the Corporation for the year ended October 31, 2019 have been prepared 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. These consolidated financial statements were approved and authorized for issuance by the Board of Directors on February 27, 2020.

Going Concern

These consolidated financial statements have been prepared on a going-concern basis, which implies that the Corporation will continue realizing its assets and discharging its liabilities in the normal course of business for the foreseeable future. As reflected in the consolidated financial statements, the Company is in the process of ramping up its activities and has not yet achieved profitability. During the year ended October 31, 2019, The Company's incurred a net loss of $3.6 million, used cash in operations of $2.3 million and has a working capital deficiency of $2,8 million. This raises significant doubt about the Company's ability to continue as a going concern.

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 and ultimately on generating future profitable operations. Subsequent to the end of the year, management was successful in raising additional capital (see note 28) to mitigate the working capital deficiency. Management anticipates that the commercialization of new products and the generation of additional revenues out of its existing products will enable the Company to achieve profitability. There is no assurance that any of these initiatives will be successful. Factors within and outside the Corporation's control could have a significant bearing on its ability to obtain additional financing or on the generation of additional revenues.

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.

2. Summary of Significant Accounting Policies

Basis of consolidation

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

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

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, 2019, there was a consolidated working capital deficiency of $2,826 (October 31, 2018 – $2,007) and a consolidated loss of $3,615 for the twelve months ended October 31, 2019 (consolidated loss of $2,437 for the twelve months ended October 31, 2018).

Functional and Presentation Currency

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

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

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 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 are measured 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 other comprehensive loss 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$").

Revenue Recognition

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

The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgement thresholds have been introduced which may affect the timing of revenue recognized. The Corporation records revenue from contracts with customers in accordance with the five steps outlined in IFRS 15 as follow: (i) Identify the contract with a customer; (ii) Identify the performance obligation in the contract; (iii) Determine the transaction price, which is the total consideration provided by the customer; (iv) Allocate the transaction price among the performance obligations in the contract based on their relative fair values and (v) Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The Corporation has elected to adopt IFRS 15 using the cumulative effect method as of the date of initial application on November 1st, 2018, with no restatement of comparative period amounts. As the effect of adopting IFRS 15 did not have an impact on the consolidated financial statements, there was no adjustment made to the opening balance of deficit at the date of the initial application. As a result of the application of this new standard, where a right of return exists, the Corporation records an asset and a refund liability when revenue is recorded.

Service Income

Service income represents quality control and finance services. Income is recognized in the same period as the quality control and finance services are rendered.

Financial Instruments

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

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business model under which they are held. At initial recognition, financial assets are measured at fair value and subsequently classified as either amortized cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income. The adoption of IFRS 9 did not result in a change in the carrying values of any of the Corporation's financial assets on the transition date.

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

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

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

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

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

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

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

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

	October 31, 2019	October 31, 2018
Financial assets:		
Cash	**335**	11
Trade receivables	**382**	731
Other receivables	**231**	154
Financial liabilities:		
Bank overdraft	**-**	-
Bank indebtedness	**-**	850
Accounts payable and accrued liabilities	**4,377**	2,053
Loans	**-**	96
Long term loans	**1,001**	953
Convertible debentures	**-**	507

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

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

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

Cash and cash equivalents

The Corporation considers all investments with maturities of three months or less from the acquisition date, that are highly liquid and readily convertible into cash, to be cash equivalents. As at October 31, 2019 and 2018 there were no cash equivalents.

Inventory

Inventory, composed of finished goods and active ingredients, 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 Corporation determines its provision for obsolete inventory based on the quantities on hand at the reporting dates, compared to foreseeable needs over the upcoming periods.

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:

	Method	
Assets	***Diminishing balance***	***Straight-line***
Computer equipment	30%	
Equipment and furniture	20%	
Security vault	4%	
Leasehold improvements		over the lease term

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 financial and technical 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.

Expenditures incurred for preparing and filing a regulatory submission for a product 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 being up to 10 years. These costs will be amortized over the estimated life of the product when commercialization has occurred.

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.

Intangible assets 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

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

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.

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. Deferred tax asset and liability differences are recognized directly in income, other comprehensive loss 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.

Sales Tax

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

Provisions

Provisions are recognised when the Corporation has a current 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.

Share based compensation

The Corporation grants equity settled stock options to certain directors, officers, consultants and employees. Each tranche in an award is considered a separate award with its own vesting period and 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. 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 warrants 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, plus the related portion previously recorded to contributed surplus.

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:

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

- 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 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.
- 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. Actuarial 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.
- 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.

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.

Earning per Share

Earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated allowing for the exercise of all dilutive instruments and assumes that any proceeds that can be obtained upon the exercise of options is 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.

Recent Accounting Pronouncement

The Corporation has not yet applied the following new standard that has been issued but are not yet effective. Unless otherwise stated, the Corporation does not plan to early adopt this new standard.

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. The new standard eliminates the classification of leases as either operating or finance leases for lessees and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value (less than $5). On November 1st, 2019 the Corporation will apply the new standard retrospectively without restatement of comparative amounts Comparative information is still reported under IAS 17 and IFRIC 4. The new standard requires lessees to recognize a lease liability representing future lease payments and a "right-of-use asset" for virtually all lease contracts, and record it on the balance sheet, except with respect to lease contracts that meet limited exception criteria. The Corporation will elect the modified retrospective approach measuring the right-of-use asset at an amount equal to the lease liability. There will be an increase to both assets and liabilities upon adoption of IFRS 16 and changes to the presentation of expenses associated with the lease arrangements.

On initial adoption, the Corporation will apply the following practical expedients permitted under the standard: (i) short-term leases and leases of low value assets that have been identified at November 1st , 2019 will not be recognized on the consolidated balance sheet; (ii) leases with terms ending within 12 months of November 1st , 2019 will be treated as short-term leases and will not be recognized on the consolidated balance sheet; (iii) contracts that were not previously identified as containing a lease under the previous standard will not be reassessed under IFRS 16; (iv) initial direct costs will be excluded from the measurement of right-of-use assets for the purpose of initial measurement on transition; (v) a single discount rate will be used for remaining lease payments on leases with similar characteristics; (vi) the Corporation will elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition; (vii) instead of performing an impairment review on the right-of-use assets at the date of initial application, the Corporation will rely on historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

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

The Corporation quantified the impact of IFRS 16 adoption on the fiscal 2020 opening balance sheet. The Corporation's preliminary assessment indicates that the increases in both its total assets and total liabilities will be approximately $341 on the consolidated balance sheet as at November 1st, 2019. The Corporation is in the final stages of validating the final amounts of the impact on its consolidated balance sheet which will be disclosed in the Corporation's unaudited condensed interim financial statements of the first quarter of fiscal year 2020. Therefore, there could be changes in the amounts specified above.

Lease related expenses previously recorded in general and administrative costs will be recorded as depreciation using a straight-line method on the right-of-use asset and the lease liability will be unwound using an effective interest rate method and recorded as financial expense. The application of these two methods will result in more expenses charged to net loss earlier in the lease term and less expenses charged in the later years. The lease term is five years.

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.

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.

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 equity share-based payments, 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-

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

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

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 14.

b) The following areas require 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 regulatory 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 judgments with respect to its relationships with licensing and suppliers. Based on the terms of the arrangements, the Corporation determines whether it acts as the principal or an agent for the product sales. The key elements to determine if the Corporation acts as a principal or an agent are whether it is primarily responsible to fulfill the promise to deliver the products, whether it has inventory risk and has discretion in establishing the sales prices for the products.

4. Trade and Other Receivables

	October 31, 2019	October 31, 2018
Trade receivables	**381**	731
Receivable from related party	**105**	34
Receivables from others	**67**	88
Sales taxes receivable	**60**	32
	613	885

5. Inventory

	October 31, 2019	October 31, 2018
Finished goods	**479**	95
Active ingredients	**82**	-
	561	95

A write-down of $85 was taken in 2018 against expired active ingredients.

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

6. Property and Equipment

	Leasehold improvements	Computer equipment	Equipment and furniture	Security Vault	Total
Cost as at October 31, 2018	106	265	180	196	747
Additions	4	19	2	-	25
Cost as at October 31, 2019	**110**	**284**	**182**	**196**	**772**
Accumulated depreciation as at October 31, 2018	71	216	119	31	437
Depreciation	9	17	6	7	39
Accumulated depreciation as at October 31, 2019	**80**	**233**	**125**	**38**	**476**
Net carrying value October 31, 2019	**30**	**51**	**57**	**158**	**296**

	Leasehold improvements	Computer equipment	Equipment and furniture	Security Vault	Total
Cost as at October 31, 2017	107	252	177	196	732
Additions	-	13	2	-	15
Cost as at October 31, 2018	**107**	**265**	**179**	**196**	**747**
Accumulated depreciation as at October 31, 2017	61	202	111	24	398
Depreciation	10	14	8	7	39
Balance as at October 31, 2018	**71**	**216**	**119**	**31**	**437**
Net carrying value October 31, 2018	**36**	**49**	**60**	**165**	**310**

7. Intangible Assets

	Submission costs	License fee	Total
Balance as at October 31, 2018	984	1,000	1,984
Additions	935	1,037	1,972
Amortization	(39)	(57)	(96)
Balance as at October 31, 2019	**1,880**	**1,980**	**3,860**

	Submission costs	License fee	Total
Balance as at October 31, 2017	672	1,000	1,672
Additions	317	-	317
Amortization	(5)	-	(5)
Balance as at October 31, 2018	984	1000	1,984

On March 31st, 2017, The Corporation entered into a licensing agreement with Zambon S.p.A. ("Zambon") for Canadian commercial rights to Onstryv (Safinamide), a branded product for the treatment of Parkinson's Disease. Pursuant to the terms of the agreement, the Corporation paid an upfront fee of $1,000 and is further obligated to pay additional licensing milestone fees of $1,000, royalty fees on sales and sales milestone payments as described in Note 27 (ii). Amortization of licensing fees has been recognized following the grant of marketing approval from Health Canada and upon the commencement of commercial activities of the product and charged to cost of sales. Amortization began in the third quarter of fiscal 2019.

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

7. Intangible Assets – *cont'd*

The Corporation annually tests the carrying value of its intangible assets with indefinite life and intangible assets not yet available for use to ensure that such carrying value which appears on the financial statements can be recovered using realistic assumptions as to the net present value of the commercial benefit to be derived from such assets over a period of 10 years using a discount rate of 25%. Such determination is based by assessing market dynamics for each product, including trends in pricing, reimbursements, competition and other factors. Regulatory risk is also analyzed to ensure that there is strong evidence that the respective intangible assets will derive the expected commercial benefits.

8. Operating Loan

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

The lender will make the facility available by way of prime rate-based loans in CAD$, United States base rate ("USBR") loans in USD$ and stand-by letters of guarantee in CAD$. For the borrowing options available to the Corporation, the interest rates are prime rate + 0.75% per annum for prime based loans; USBR +0.75% per annum for USBR loans and for letters of guarantee the rate will be that set out in the letter of credit indemnity agreement applicable to the issued letter of guarantee. This operating loan was unused as at October 31, 2019.

9. Accounts Payable and Accrued Liabilities

	October 31, 2019	October 31, 2018
Trade accounts payable	**3,838**	1,558
Payables to related parties *(i)*	**41**	88
Other accounts payable and accrued liabilities	**498**	407
	4,377	**2,053**

(i) Included in Payables to related parties		
Compensation owed to a person who is an officer	**30**	20
Consulting fees owed to a company controlled by an officer	**10**	12
Expenses owed to persons who are officers, employees and consultants incurred in the normal course of business	**1**	56

10. Provision for Product Returns

	October 31, 2019	October 31, 2018
Balance, beginning of year	**52**	-
Charges	**100**	52
Utilization	**(52)**	-
	100	52

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

11. Long Term Debt

Loans and long-term loans include secured and unsecured loans from actual or former shareholders, with no set terms of repayment. Convertible debentures consisted of an unsecured debenture due to a shareholder, with no set terms of repayment. Amounts owed are presented below:

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

11. Long Term Debt – *cont'd*

		Interest rates	Maturity Date	**October 31, 2019**	October 31, 2018
Loans and long-term loans	**unsecured**	6% per annum	March 31, 2019	**-**	96
		8% per year	March 31, 2020	**-**	403
		8% per year	March 31, 2020	**-**	166
		12% per year	(a)	**1,001**	-
	secured	5% per year	November 1, 2019	**-**	384
Convertible debentures	**unsecured**	8% per year	November 30, 2019	**-**	507
Current liabilities				**-**	96
Non-current liabilities				**1,001**	1,460

a. See Note 28 (i) – Subsequent Events

During the 1st and 2nd quarter 2019, the Corporation issued $900 of additional unsecured subordinated convertible debentures, maturing on January 31, 2020. The debentures bore interest at 5% per annum from the date of issue, payable quarterly in arrears. On February 18, 2019, the Corporation converted $1,400 of outstanding debentures, plus accrued interest of $27 into 3,567,158 Class "A" common shares (Note 14), representing a conversion price of $0.40 per share. On July 25, 2019, the Corporation converted $915 of outstanding loans, plus accrued interest of $67 into 1,964,257 Units (Note 14), representing a conversion price of $0.50 per share. During the 4th quarter of 2019, a shareholder subscribed to a $1,000 unsecured convertible debenture at an annual rate of 12% and maturing on October 28, 2022. The debenture conversion price was set at $0.40. See subsequent events, Note 28.

12. Income Taxes

Details of the components of income taxes are as follows

	2019	2018
Loss before income taxes	**(3,615)**	(2,400)
Basic income tax rate	**26.7%**	26.7%
Computed income tax recovery	**(965)**	(641)
Decrease (increase) resulting from:		
Permanent differences	**75**	(4)
Effect of rate change and other	**22**	37
Change in deferred tax assets not recognized	**868**	645
Provision of income taxes	**-**	37
Effective tax rate	**0.00%**	(1.53%)

Deferred Taxes

	2019	2018
Deferred tax assets		
Donations carried forward	**11**	11
Non-capital losses carried forward	**1,660**	786
Loan provision	**20**	20
Employee benefit plan	**93**	65
R&D tax credit	**-**	20
Share issue costs	**-**	2
Less: tax benefits not recognized	**(1,784)**	(904)
Total	**-**	-
Deferred tax liabilities		
Property, equipment and intangible assets	**531**	277
R&D Credit	**-**	5
Non-capital losses carried forward	**(531)**	(282)
Total	-	-

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

12. Income Taxes – *cont'd*

Accumulated non-capital losses

The Corporation has accumulated non-capital losses of $8,125 for income tax purposes in Canada and US $93 for income tax purposes in the United States, which are available to be applied against future taxable income and expire as follows:

	CDN	US
2029	-	33
2030	-	2
2031	-	11
2032	-	42
2033	-	3
2034	-	-
2035	3	-
2036	20	1
2037	1,193	1
2038	2,726	-
2039	4,183	-

13. 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, 2018 has established the actuarial deficit to be $469, with such amount having to be funded over the next 11 years. The required contribution in calendar 2018 was $35 and the required contribution will be $35 in calendar 2019 which may change depending on the results of the next valuation. The next actuarial valuation will be performed as of December 31, 2021 and submitted to the government authorities by the September 30, 2022 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 following table presents the changes in benefit obligations and fair value of plan assets in 2019 and 2018 and reconciles the funded status to accrued pension assets as at October 31, 2019 and 2018.

	2019	2018
Changes in Pension Obligation		
Obligation, beginning of year	**1,235**	1,330
Interest cost	**47**	44
Actuarial (gain) loss	**123**	(75)
Benefits paid	**(66)**	(64)
Pension obligation, end of year	**1,339**	1,235
Changes in Fair Value of Plan Assets		
Fair value of plan assets, beginning of year	**994**	1,083
Employer contributions	**32**	18
Actual return on plan assets	**28**	(43)
Benefit payments	**(66)**	(64)
Fair value of plan assets, end of year	**988**	994

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

13. Employee Benefit Plan – *cont'd*

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

	2019	2018	2017	2016	2015
Funded status – deficit					
Present value of benefit obligation	**(1,339)**	(1,235)	(1,331)	(1,371)	(1,268)
Fair value of plan assets	**988**	994	1,083	1,157	1,151
Funded status – deficit	**(351)**	(241)	(248)	(214)	(117)

	2019	2018	2017	2016	2015
Experience adjust gain (loss) arising on:					
Plan liabilities	**(123)**	75	(5)	(114)	35
Plan assets	**(10)**	(79)	(22)	(30)	24

The interest cost in 2019 was $47 (2018 - $44) and the expected return on plan assets in 2019 was $38 (2018 - $36).

The significant assumptions used are as follows:

	2019	2018
Accrued benefit obligation as of October 31		
Discount rate	**2.95%**	3.90%
Rate of compensation increase	**3.00%**	3.00%
Benefit costs for years ended October 31		
Discount rate	**2.95%**	3.90%
Rate of compensation increase	**2.10%**	2.25%

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

	2019	2018
Asset Category, as at October 31		
Equity securities – Listed	**47%**	45%
Equity securities – Non - Listed	**4%**	4%
Debt securities – Listed	**49%**	51%
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, 2019 and has some limitations. The sensitivities of each key assumption have been calculated without considering 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.

(Increase) decrease	Defined benefit obligation
Impact of 1% increase in discount rate	144
Impact of 1% decrease in discount rate	(174)

14. Share Capital

The Authorized Share Capital is composed of an unlimited number of Class A shares, voting, participating with no par value. The issued and outstanding share capital is as follows:

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

14. Share Capital – *cont'd*

	Notes	Number of Class A shares	$
Balance as at October 31, 2018		44,903,008	4,659
Share Issue costs		-	(164)
Conversion of debentures into shares	(i)	3,567,158	1,427
Issuance of units	(ii)	6,225,000	2,583
Unit issue costs		-	(491)
Conversion of loans into units	(iii)	1,964,257	815
Balance as at October 31, 2019		**56,659,423**	**8,829**

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

(ii) On July 25, 2019 ("Closing") the Corporation closed a marketed public offering (the "Offering") of 6,225,000 units (the "Units") at a price of $0.50 per Unit (the "Offering Price") for aggregate gross proceeds to the Corporation of $3.1 million. Each Unit consists of one Class A share (a "Share") and one Share purchase warrant (a "Warrant"). Each Warrant is exercisable into one Share in the capital of the Corporation (a "Warrant Share") at the price of $0.60 per Warrant Share for a period of 36 months from Closing. If, at any time prior to the expiry date of the Warrants, the volume weighted average trading price of the Shares on the Canadian Securities

Exchange ("CSE") equals or exceeds $1.10 for 20 consecutive trading days, the Corporation may, within 15 days of the occurrence of such event, deliver a notice to the holders of Warrants accelerating the expiry date of the Warrants to the date that is 30 days following the date of such notice (the "Accelerated Exercise Period"). Any unexercised Warrants shall automatically expire at the end of the Accelerated Exercise Period. As a result of this transaction, $598 was allocated to Warrants on the statement of financial position as the Corporation has adopted a residual value method with respect to the measurement of its Warrants. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value to the less easily measurable component.

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

a) Share option issuance and compensation expense

In fiscal 2018, the Corporation adopted an amended and restated stock option incentive plan for directors, officers, consultants and employees to enable the purchase of common shares of the Corporation. The exercise price for these options cannot be less than the lowest price permitted by applicable regulatory authorities. Their maximum term is 10 years and vesting is set by the Board of Directors at their discretion.

Subject to the terms of the plan, the Board of Directors may, from time to time, grant options to participants to purchase that number of shares that, they determine, in their absolute discretion.

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

The number of shares subject to an option shall not exceed 10% of the total issued and outstanding Common shares of the Corporation; 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 a twelve-month period of the issued and outstanding common shares of the Corporation (on a non-diluted basis).

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

14. Share Capital – *cont'd*

Changes in outstanding options were as follows during the year:

	October 31, 2019		October 31, 2018	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding, beginning of year	**1,740,810**	**$0.37**	365,810	$0.25
Forfeited during the period	**(150,000)**	**$0.40**	-	-
Expired during the period	**(50,000)**	**$0.40**	-	-
Granted during the period	**1,422,222**	**$0.43**	1,375,000	$0.40
Options outstanding, end of period	**2,963,032**	**$0.40**	1,740,810	$0.37
Options exercisable, end of period	**1,309,509**	**$0.37**	536,858	$0.37

The following options were granted in the respective reporting periods:

For the period ended October 31, 2019

Number	Notes	Date of grant	Expiry date	Exercise price	Fair value
200,000	(i)	November 13, 2018	November 13, 2025	$0.40	$0.21
200,000	(ii)	November 19, 2018	November 19, 2025	$0.40	$0.21
397,222	(ii)	February 19, 2019	February 19, 2024	$0.40	$0.40
100,000	(iii)	April 15, 2019	April 15, 2024	$0.50	$0.45
325,000	(ii)	July 31, 2019	July 31, 2024	$0.50	$0.01
200,000	(ii)	September 25, 2019	September 25, 2025	$0.40	$0.10
1,422,222					

For the period ended October 31, 2018

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

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

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

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

(iv) These options vest on performance criteria related to funds raised by the Corporation. These options have a cancellation date of December 31, 2020. As at October 31, 2019, 50% of these options have vested.

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

Number	Exercisable	Stock price	Fair value	Exercise price	Remaining contractual life
365,810	365,810	$0.27	$0.14	$0.25	1.50
2,172,222	812,449	$0.27	$0.10 - $0.40	$0.40	4.81
425,000	131,250	$0.27	$0.01 - $0.45	$0.50	4.71
2,963,032	**1,309,509**				

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

14. Share Capital – *cont'd*

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

Risk-free interest rate	0.72% - 2.42%
Volatility factor	59% - 90%
Expected life	2.6 - 4.6 years
Expected dividend rate	0%
Forfeiture rate	0%

The expected stock price volatility was estimated by using historical data from public companies in the same sector as the Corporation and over the period consistent with the duration of the award. The total share-based compensation in 2019 amounted to $325 (2018 - $78) recognized in contributed surplus.

b) Warrants

The following schedule presents the common shares issuable on exercise of all warrant granted during the current fiscal year:

	Notes	Number of shares	Weighted Average Exercise Price
Balance as at October 31, 2018		-	-
Issued during the year	14 (i);(ii)	8,189,257	0.60
Balance as at October 31, 2019		**8,189,257**	**0.60**

As at October 31, 2019, the Corporation had outstanding warrants as follows:

Number of Warrants	Issue date	Expiry date	Exercise price	Fair value of full warrants	Remaining contractual life in years
8,189,257	July 25, 2019	July 25, 2022	$0.60	$0.085	2.73
8,189,257					**2.73**

During the year, the Corporation issued warrants to investors through private placement, the value of which was determined using the residual value method. 6,225,000 warrants were issued in conjunction with the distribution of the Units while 1,964,257 were issued on the debt conversion (Note 14(ii) & (iii)).

15. 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.

	2019	2018
Net Loss for the year	**3,615**	2,437
Weighted average number of common shares outstanding	**49,588,556**	35,653,069
Basic loss per share	**0.07**	0.07

Effect of dilution from 2,963,032 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, 2019 (1,740,810 stock options for the year ended December 31, 2018) as they are anti-dilutive.

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

16. Other Cash Flow Information

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

	2019	2018
Decrease (increase) in trade receivables	**350**	(604)
Increase in inventory	**(468)**	(180)
Increase in prepaid expenses	**(89)**	(3)
Increase in accounts payable and accrued liabilities	**958**	723
Decrease in income taxes	**1**	882
Increase in other receivables	**(107)**	(26)
	645	792

Non-cash adjustments made to accounts payable

	2019	2018
Unrealized (gain) loss on foreign exchange	**(26)**	(14)
Acquisition of equipment	**-**	(2)
Interest on shareholder loans	**-**	41
Acquisition of intangible assets	**(1,061)**	(45)
Provision for sales returns	**(52)**	-
Funding of pension plan	**(12)**	-
Payment of share issue costs	**(170)**	-
Payment of prospectus costs	**(45)**	-
	(1,366)	(20)

Supplemental (non-cash) cash flow information

	2019	2018
Increase in share capital on conversion of loans and debentures	**815**	4,253
Increase in deficit on redemption of X and X1 shares	**-**	581
Increase in deficit on dividend paid	**-**	65
Increase in warrants on conversion of loans	**167**	-

Supplemental cash flow information

	2019	2018
Cash interest paid during the year	**139**	36
Cash interest received during the year	**-**	1
Cash income taxes paid during the year	**-**	16
Cash income taxes received during the year	**1**	861

17. Revenues

	2019	2018
Net product revenue	**6,577**	4,149
Agency revenue	**-**	233
	6,577	4,382

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

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

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

18. Sales and Marketing Expenses

	2019	2018
Sales expenses	**495**	178
Marketing expenses	**669**	48
Employee compensation	**847**	369
	2,011	595

19. General and Administrative Expenses

	2019	2018
Depreciation of property and equipment	**39**	39
Amortization of intangible assets	**39**	5
Administrative expenses	**1,388**	1,133
Product development costs	**8**	-
Employee compensation	**1,319**	1,403
Pension expense	**9**	8
	2,802	2,588

20. Financial Expenses

	2019	2018
Interest on loans	**54**	75
Interest on debentures	**19**	99
Foreign exchange fluctuation	**(3)**	(1)
Credit facility costs and bank charges	**61**	92
	131	265

21. Other Income

	2019	2018
Interest income	**-**	1
Rental income	**32**	25
Service income	**221**	122
Impairment of investment	**-**	(5)
Recovery of balance of sale	**-**	150
	253	293

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 related company renting office space at the Corporations head office.

On August 22, 2014, the Corporation sold most of its product portfolio, related inventory and certain other assets to Valeant Canada LP. The purchase price was set at $25,645 of which an amount of $7,000 represented an earn-out subject to adjustments. As the earn-out amount did not earn interest, management had discounted the $7,000 at an estimated market discount rate of 4.5% interest over the three-year earn-out period and had reflected a $6,472 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 $1,265. At October 31, 2016, management revised the estimate of the balance of sale receivable and reversed $385 of the impairment taken at October 31, 2015. During the second quarter of 2017 a milestone payment of $161 was received which left a balance receivable of $201 at the end of 2017. In the second quarter of 2018, a settlement of $351 was reached and collected concerning the final milestone calculation.

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

22. 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 wholesalers accounted for 88% of gross revenue in 2019 (2018 – 88%).

23. Related Party Transactions

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

	2019	2018
Key management salary and benefits	**789**	835
Directors and employee stock option compensation	**325**	78
Consulting fee paid to a company controlled by an officer	**196**	23

24. Financial Instruments

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

October 31, 2019,	**Fair value through profit and loss**	**Fair value through other comprehensive income**	**Amortized cost**
Financial assets:			
Cash	-	-	**335**
Trade and other receivables	-	-	**613**
	-	-	**948**
Financial liabilities:			
Accounts payable and accrued liabilities	**-**	-	**4,377**
Loans	**-**	-	**1,001**
	-	**-**	**5,378**

October 31, 2018	Carrying Value		Fair Value
	FVTPL	Loans and receivables / Other financial liabilities	
Financial Assets			
Cash (Level 1)	11	-	11
Trade and other receivables (Level 3)	-	885	885
	11	885	896
Financial Liabilities			
Bank indebtedness (Level 1)	-	850	850
Accounts payable and accrued liabilities (Level 3)	-	2,053	2,053
Loans (Level 3)	-	96	96
Long-term loan (Level 3)	-	953	953
Convertible debt (Level 3)	-	507	507
	-	4,459	4,459

Short term financial instruments, comprising trade receivables, other receivables, bank indebtedness, accounts payable and accrued liabilities and loans are carried at amortized cost, 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 Corporations' own credit risk, that reflects current market conditions for instruments with similar terms and risks.

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

24. Financial Instruments – *cont'd*

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

The three levels are defined as follows:

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

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

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

Date of Fair Value Measurement		**Level 1**	**Level 2**	**Level 3**
		$	**$**	**$**
October 31, 2019				
Assets	**Cash**	**335**	**-**	**-**
Liabilities	**None**	**-**	**-**	**-**
October 31 2018				
Assets	Cash	11	-	-
Liabilities	None	-	-	-

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

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

25. Financial Risk Factors

(a) Market risk

(i) Currency risk

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

(ii) Cash flow and fair value interest rate risk

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

(b) Credit Risk

The Corporation considers its maximum credit risk to be based on the following financial assets: cash, trade and other receivables. Credit-risk arises from cash and deposits with banks and financial institutions. The Corporation reduces this risk by dealing with creditworthy financial institutions. Credit risk also results from the possibility that a loss may occur from the failure of another party to adhere to payment terms. To lower this risk, the Corporation's extension of credit is based on an evaluation of each customer's financial condition. Management reviews the ageing of trade accounts receivable and other factors relating to the risk that customer accounts may not be

(All amounts in thousands of Canadian dollars, except for share, unit and per share amounts)

25. Financial Risk Factors – *cont'd*

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, 2019, 95% of trade accounts receivables are current (less than 30 days) (2018 - 100%). As at October 31, 2019, three customers accounted for 84% of the trade receivables (2018 - 88%). 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, 2019 (Note 2).

	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Accounts payable and accrued liabilities	**882**	**2,495**	**1,000**	**-**	**4,377**
Loans	**-**	**-**	**-**	**1,001**	**1,001**
	882	**2,495**	**1,000**	**1,001**	**5,378**

26. Capital Structure Financial Policy

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

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

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

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

27. Commitments

(i) Operating Lease

In February 2019, the Corporation renegotiated the lease for its rental premises for another five-year term, commencing in September 2019 and to expire in August 2024.

The minimum lease payments amount to $92 in year one, $94 in year two, $95 in year three, $97 in year four and $99 in the final year.

(ii) Licensing agreement

Pursuant to the terms of the Zambon agreement (Note – 7(i)), and in addition to the upfront payment of $1,000, the Corporation is further obligated to pay $1,000 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, included in cost of sales, based on Net Sales at rates of 10-20% in any given year based on aggregate Net Sales levels achieved during the year.

28. Subsequent events

(i) On February 27, 2020, the Corporation completed a non-brokered private placement for $2,078 worth of unsecured convertible debentures at a price of $1 (one thousand) per Debenture. The debentures bear interest at a rate of 12% per annum with a maturity date of February 27, 2023. Each debenture will be convertible at a price per Class "A" share equal to $0.40.