Financial Report

Second Quarter - Fiscal Year 2020

April 30, 2020

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 second quarter ended April 30, 2020. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the quarter ended April 30, 2020 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 June 30, 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

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-20	Fiscal Year 2020
FY-19	Fiscal Year 2019
Q2-20	Second quarter 2020
Q1-20	First quarter 2020
Q4-19	Fourth quarter 2019
Q3-19	Third quarter 2019
Q2-19	Second quarter 2019
Q1-19	First quarter 2019
Q4-18	Fourth quarter 2018
Q3-18	Third quarter 2018
YTD	Year to date

Corporate & Operations

Biosimilar	Biologic drug that is highly similar to a biologic drug already approved for sale.
COVID-19	a potentially severe respiratory illness caused by a coronavirus
CSE	Canadian Securities Exchange
CTA	Clinical Trial Application with Health Canada
DIN	Drug Identification Number
FDA	United States Food and Drug Administration
GDUFA	Generic Drug User Fee Act in the USA
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 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, 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 Asia. 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 warehouse 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 Q2-20, 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 during FY-20. 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 have been halted at the end of the Q2-19. 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 Q2-20 over the same period last year.

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. In circumstances where a product has an existing DIN, 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.

(In thousands of Canadian dollars, except for units, share and per share amounts)

Our product portfolio is presented below:

Commercial Stage

Products	Indications	Partners	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 met expectations and the product has broad distribution 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 ("RAMQ"), Quebec public listing is imminent but still pending.
M-Eslon (Distribution Agreement)	Extended release morphine sulphate used for pain management.	Ethypharm Inc. ("Ethypharm")	The Corporation is distributing the product and is recording sales 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 including Alberta and British Columbia have elected to favor biosimilar over branded LMWH.
Undisclosed	Bioflavonoid antioxidant used for immune support	Owned by Valeo, partnered with Ingenew Pharma.	During Q2-20, the Corporation commenced a bioflavonoid development project. Commercialization is expected to commence in Q4-20
Ethacrynate Sodium	Loop diuretic used to treat high blood pressure and associated swelling	Owned by Valeo worldwide except for Italy	Approved by FDA in June 2020. 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, manufacturing and supply of the API and finished products have been impacted by the Covid-19 outbreak. Valeo now expects to start commercializing the product in the first half of FY-21.
Yondelis® *Trabectedin* (license)	Soft tissue sarcoma	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. The DIN transfer has been authorized by HC on June 2, 2020.
Ametop™ Gel	Anesthesia of the skin prior to venepuncture or venous cannulation	Alliance Pharma	Approved by HC, Valeo has licensed the marketing authorization and expects to start commercializing the product in the second half of FY-20. The approval of the DIN transfer by HC is expected in July 2020.
Hospital Products (4)	Pain management, Injectable Antibiotic and antifungal	Undisclosed partners	The Corporation has acquired the Canadian rights to four additional hospital products not yet approved in Canada. Two of these products have been filed with Health Canada and other Regulatory filings will take place over the coming year but remain dependent on the availability of the information required for the respective filings. Marketing approval should follow within 12 months of the date of each filing including 2 approvals expected before the end of the current calendar year.

(In thousands of Canadian dollars, except for units, share and per share amounts)

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 Q2-19. 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.

Q2-2020 FINANCIAL AND CORPORATE HIGHLIGHTS

Financial Results

Q2-20 vs Q2-19 Performance

- Net Revenues up 112% at $2,081 vs $981.
- Gross Margin up 319%, at $495 vs $118.
- Net loss after taxes down 24% at $862 vs $1,140.
- EBITDA Loss down 42% at $640 vs $1,098.

Q2-20 vs (Prior quarter) Q1-20 Performance

- Net Revenues up 24% at $2,081 vs $1,684.
- Gross Margin up 54% at $495 vs $322.
- Net loss after taxes down 22% at $862 vs $1,108.
- EBITDA Loss down 31% at $640 vs $925.

YTD-20 vs YTD-19

- Net Revenues up 37% at $3,765 vs $2,752.
- Gross Margin up 115% at $817 vs $380.
- Net loss after taxes down 7% at $1,970 vs $2,129.
- EBITDA Loss down 22% at $1,586 vs $2,031

Products highlights

- 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.
- On March 17th, 2020, Valeo announced that WHO recommends the use of LMWH for addressing complications of Covid-19. Valeo's LMWH Redesca is currently under review by Health Canada with marketing approval expected later this year.
- On April 28th, 2020, signing of a licensing agreement with Alliance Pharma plc ("Alliance") for the exclusive commercialization rights to Ametop™ Gel (Tetracaine hydrochloride gel) in Canada.

Financial and Corporate

- Closing on February 27th, 2020 of 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 $1 (one thousand) debenture will be convertible at a price per Class "A" share equal to $0.40. A subsequent closing for additional gross proceeds of $100 took place on March 26th, 2020 on the same terms with a maturity date of March 26, 2023.

Subsequent to the end of the quarter

- On June 8th, 2020, the Corporation announced that it had received a Notice of Compliance from Health Canada authorizing the transfer of the commercial rights of Yondelis® to Valeo. Yondelis® (trabectedin) is a novel marine-derived antitumor agent manufactured by PharmaMar S.A., based in Madrid, Spain.
- On June 16th, 2020 – Valeo announced that it has received approval for its Abbreviated New Drug Application ("ANDA") from the U.S. Food and Drug Administration ("FDA") for Ethacrynate Sodium 50 mg.

(In thousands of Canadian dollars, except for units, share and per share amounts)

SELECTED FINANCIAL DATA

The following table sets forth financial information relating to the periods indicated and should be read in conjunction with the January 31, 2020 unaudited consolidated financial statements.

Consolidated Statements of Loss

	Q2-20	Q2-19	Change		YTD-20	YTD-19	Change	
	$	$	*$[1]*	*%[2]*	**$**	$	*$[1]*	*%[2]*
Revenues	**2,081**	981	*1,100*	*112%*	**3,765**	2,752	*1,013*	*37%*
Cost of Sales	**1,586**	863	*723*	*84%*	**2,948**	2,372	*576*	*24%*
Gross Profit	**495**	118	*377*	*319%*	**817**	380	*437*	*115%*
Gross Profit %	**24%**	12%	*12%*	*98%*	**22%**	14%	*8%*	*57%*
Expenses								
S&M	**586**	441	*145*	*33%*	**1,206**	968	*238*	*25%*
G&A	**654**	775	*(121)*	*(16%)*	**1,435**	1,483	*(48)*	*(3%)*
Share based compensation	**42**	84	*(42)*	*(50%)*	**75**	117	*(42)*	*(36%)*
Financial expense (income)	**128**	31	*97*	*312%*	**192**	79	*113*	*143%*
Other income	**(53)**	(73)	*(20)*	*(27%)*	**121**	138	*(17)*	*(12%)*
Total Expenses	**1,357**	1,258	*99*	*8%*	**2,787**	2,509	*278*	*11%*
Net Loss before income taxes	**(862)**	(1,140)	*278*	*(24%)*	**(1,970)**	(2,129)	*154*	*(7%)*
Provisions for income taxes								
Current	**-**	-	*-*	*0%*	**-**	-	*-*	*0%*
Net loss for the year	**(862)**	(1,140)	*273*	*(24%)*	**(1,970)**	(2,129)	*159*	*(7%)*
Other comprehensive loss								
Exchange differences on translating foreign operations	**(7)**	(3)	*(4)*	*133%*	**(8)**	(3)	*5*	*(167%)*
Defined benefit plan, net actuarial loss	**(40)**	(71)	*30*	*(43%)*	**(40)**	(71)	*30*	*(43%)*
Total comprehensive loss	**(909)**	(1,214)	*304*	*(25%)*	**(2,018)**	(2,203)	*184*	*(8%)*
Loss per share								
Basic and diluted	**(0.02)**	(0.03)	*0.01*	*50%*	**(0.04)**	(0.05)	*0.01*	*20%*
Weighted average number of shares outstanding	**56,659,423**	47,726,835	*8,932,588*	*19%*	**56,659,423**	46,291,520	*10,367,903*	*22%*

1. A positive variance represents a positive impact to net income and a negative variance represents a negative impact to net income
2. Percentage change is presented in relative values

EBITDA(L) Reconciliation

The following table provides a reconciliation of net loss to EBITDA(L) for Q2-20, and YTD-20 as compared to 2019 periods.

	Q2-20	Q2-19	Change		YTD-20	YTD-19	Change	
	$	$	*$*	*%[1]*	$	$	*$*	*%[1]*
Net loss for the quarter	**(862)**	(1,140)	*273*	*24%*	**(1,970)**	(2,129)	*154*	*7%*
Add (deduct)								
Provision for income taxes	**-**	-	*-*	*0%*	**-**	-	*-*	*0%*
Interest expense	**119**	29	*90*	*310%*	**177**	73	*104*	*142%*
Depreciation	**25**	10	*15*	*150%*	**50**	19	*31*	*163%*
Amortization of intangible assets	**78**	3	*75*	*2500%*	**157**	6	*151*	*2517%*
EBITDA(L)	**(640)**	(1,098)	*458*	*(42%)*	**(1,586)**	(2,031)	*445*	*(22%)*

1. Percentage change is presented in relative values

(In thousands of Canadian dollars, except for units, share and per share amounts)

	Q2-20 vs Q2-19	YTD-20 vs YTD-19
Revenues	• Valeo's revenues are derived from the commercialization of 2 groups of products. The first group is comprised of "branded" prescription products such as Onstryv and Redesca (HC approval pending) which contributes strong contribution margins but require S&M support. The second group includes our "hospital-injectable products" which require nominal S&M and contributes variable margins depending on the licensing terms. Our Branded product portfolio also includes M-Eslon which we commercialize since 2016 with nominal S&M efforts. • Since the sale of our commercial portfolio in 2014, we have spent great efforts to re-build our product portfolio. These products are at different stages of regulatory development and will start contributing to our revenues sequentially over the coming years. • Our 2020 results are showing the addition of 3 new commercial products contributing to our revenues as compared to the prior year. Over the last 12 months, we successfully launched Onstryv, in Q3-19 as well as Ondansetron ODT in Q4-19. Benztropine was also added to our commercial portfolio in Q4-19, with a nominal impact on our results. • We are now planning for the launch of 4 new products before the end of the 2020 fiscal year as well as 4 more products in FY-21 including Redesca our LMWH Biosimilar. These product launches are expected to materially impact our performance and contributed to make Valeo profitable.	
	• Revenues in Q2-20 increased by 112%, or $1,100 over Q2-19. The strong growth in our revenues results for the addition of several commercial products over the last year with 3 additional products generating sales during the quarter compared to last year. • In addition to the contribution of new products, M-Eslon and Sodium Ethacynate showed stronger performance in Q2-20 as compared to Q2-19. • Finally, the Q2-19 numbers were impacted by substantial product returns due to the Synacthen supply shortage (See "Revenue and Margin Analysis").	• YTD-20 revenues have increased by 37%, or $1,013 over Q2-19. The growth in our revenues results for the addition of several commercial products over the last year as well as a strong performance from products already in our portfolio such as M-Eslon and Sodium Ethacynate which both showed stronger performance in YTD-20 as compared to YTD-19.
Cost of Sales (COGS)	• Cost of Sales varies depending on the mix of products sold and includes the supply or manufacturing price for products sold, royalties on sales as well as amortization of product rights. (See Balance Sheet highlights for commentaries on Intangible Assets). • The impact of the amortization of product rights was $50 in Q2-20 compared to nil for Q2-19.	
Gross Margin $ and Gross Margin %	• As we launch new products and the commercial performance of our "Branded" product portfolio improves, we are set to see a significant expansion of our gross margin which will translate into a direct impact on our profitability. • The strong increase in our gross margin relates to the continued improvement in our product mix. Prior to the launch on new products in 2019, the bulk of our revenues came from M-Eslon which contributes only low double-digit gross margins as compared to Onstryv® sales, and sodium Ethacrynate for which margins are much higher.	
	• Our gross margin continued to improve significantly in Q2-20 despite the impact of the amortization of products rights (see COGS above) which started in Q4-19. Gross margin increased by 319%, or $377 in Q2-20 as compared to Q2-19 which is indicative of a much-improved product mix.	• Our Gross Margin has increased by 115% or $437 between YTD-19 and YTD-20 which demonstrates the strong impact of products launched over the last 12 months including Onstryv. Our results were also impacted by the strong contribution of our hospital injectable portfolio which contributed nicely to our YTD-20 performance as compared to the prior year period.
S&M expenses	• As mentioned above, Valeo commercializes Branded products that require S&M support, as well as hospital injectable products and M-Eslon, which require nominal S&M commitments. Because S&M staff costs represents the bulk of the S&M expenses, those expenses will fluctuate with the launch of Branded products but will not necessarily fluctuate directly as a % of revenues. • The S&M expenses increased over the last year reflecting 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.	
	• S&M expenses increased by 33% in Q2-20 as compared to Q2-19. The $145 increase represents the full impact of carrying the salesforce in Q2-20 as compared to Q2-19. Despite the incremental costs, S&M expenses as a % of revenues have reduced significantly between the	• YTD-20 S&M expenses have increased by 25% as compared to YTD-19 which shows the full impact of the Onstryv salesforce which was added mi-year in 2019 prior to the July 2019 launch.

(In thousands of Canadian dollars, except for units, share and per share amounts)

	two periods at 28% in Q2-20 as compared to 45% for Q2-19.	• S&M expenses as a percentage of revenues have decreased from 35% in YTD-19 to 32% in YTD-20. We expect S&M expenses as a % of revenues to reduce over time as our revenues benefit from the contribution of our S&M staff.
G&A expenses	• Valeo's G&A expenses includes mainly the staff costs for our non-S&M management team. These costs include staff costs for administration, finance and accounting, business development, investors relation, legal, regulatory, quality control, pharmaco-vigilance and supply chain personnel. • G&A expenses tend to remain relatively stable (fixed) between quarters and the % of G&A expenses to revenues will trend downward as our revenues expand. Our G&A expenses also include the costs of operating as a public company since the listing of the Corporation's shares on the CSE in Q2-19.	
	• G&A expenses have decreased by 16% between Q2-19 and Q2-20. The $121 reduction relates to cost control initiatives including some measures implemented to protect Valeo from possible commercial impact of the COVID-19.	• G&A expenses have remained stable between YTD-19 and YTD-20 with a nominal 3% decrease. This performance is driven by our business model that leverages fixed operating costs. Our G&A expenses as a % of revenues were 38% for the YTD-20 as compared to 54% for YTD-19, representing a 16% improvement.
SBC expenses	• SBC expenses represent the costs relating to the issuance of stock options to new staff and board members and the vesting of same over time. There were no options issued during each of the Q2-20 and YTD-20 periods. This explains the favorable variance between our 2020 and 2019 fiscal year results for SBC expenses.	
Financial expenses	• Financial expenses reflect the capital structure of the company and include the costs for issuing interest bearing debentures in lieu of issuing shares to finance its operations. The financial expenses also capture the costs for short-term borrowing and other financial charges. • The increase between the FY-19 and FY-20 periods is due to the increase in loans and debentures outstanding at the end of each periods which were issued to finance our operating requirements.	
	• Our financial expenses have increased from $31 in Q2-19 to $128 in Q2-20. The $97 increase includes a $47 increase for debentures outstanding, $33 for the increased use of our operating line of credit between the 2 periods as well as $10 for lease interest representing the impact of the IFRS 16 Lease accounting policy effective since November 1, 2019.	• The $113 increase between FY-19 and FY-20 includes $30 increase for debentures outstanding, $37 for the increased use of our operating line of credit between the 2 periods as well as $20 for lease interest representing the impact of the IFRS 16 Lease accounting policy effective since November 1, 2019.
Other income	• Nominal variations between the periods. The Corporation continues to provide back-office, accounting, regulatory and other consulting services as a mean of leveraging its staff's expertise.	
Net loss for the period	• The progress made with our improved gross margin was partly offset by the increased financial charges caused by the issuance of debentures in lieu of capital for financing our operations. The reduction of our net loss between the 2 periods demonstrates the benefit of our business model which relies on fixed SG&A expenses that can be leveraged to increase revenues and profitability. The acceleration of our revenues from the launch of new products and market share gains will translate into improved gross margins and drive our profitability going forward.	
	• Our net loss for Q2-20 has reduced by 24% as compared to Q2-19 due to a stronger gross margin contribution derived from higher sales and better product mix between the 2 reported periods.	• Oure net loss in YTD-20 improved $159 over the YTD-19 period. The 7% improvement was made possible by the incremental sales and gross margin contribution from new products despite the 25% increase in our S&M expenses required to support the launch of Onstryv in mid-2019, and the 143% increase in our financial expenses.
EBITDA (L)	• Management believes that our EBITDA (L) performance is more indicative of the commercial progress achieved by the Corporation as it eliminates the financial costs associated with our financial structure and the amortization of prior investments in our product portfolio such as license fees and regulatory filings. (See Balance Sheet section – Intangibles)	
	• Our EBITDA loss has reduced significantly between Q2-19 and Q2-20 with a 42% reduction from $1,098 loss to $640 loss. The $458 improvement came mainly from the $377 improvement in our gross margins, and tight control on S&M, and G&A spending.	• Our EBITDA loss for YTD-20 is down 22% as compared to YTD-19 at $1,586 compared to $2,031. The $445 improvement over the 2 periods is entirely explained by the $437 increase in our gross margin.

(In thousands of Canadian dollars, except for units, share and per share amounts)

Consolidated Balance Sheet Highlights

As at,	**30-Apr-20**	31-Oct-19	*Change*	
	$	$	*$*	*%[1]*
Cash	**-**	335	*(335)*	*(100%)*
Trade and other receivables	**1,432**	613	*819*	*134%*
Inventory	**470**	561	*(91)*	*(16%)*
Total current assets	**1,990**	1,651	*339*	*21%*
Intangible assets	**4,484**	3,860	*624*	*16%*
Total assets	**7,071**	5,807	*1,264*	*22%*
Bank overdraft and operating loan	**1,537**	-	*1,537*	*N/A*
Trade accounts payable	**3,980**	3,838	*142*	*4%*
Total current liabilities	**6,200**	4,477	*1,723*	*38%*
Long-term loans	**-**	1,001	*(1,001)*	*(100%)*
Convertible debentures	**1,842**	-	*1,842*	*N/A*
Total liabilities	**8,682**	5,829	*2,853*	*49%*
Share capital	**8,794**	8,829	*(35)*	*0%*
Warrants	**620**	598	*22*	*4%*
Contributed surplus	**667**	592	*75*	*13%*
Deficit	**(11,686)**	(9,716)	*(1,970)*	*20%*

1. Percentage change is presented in relative values

	Q2-20 vs YE-19
Cash	• Cash position has decreased as a result of the losses incurred over the period. Our favorable YE-19 balance reflected the $1,000 financing secured in the last month of FY-19.
Trade and other receivables	• Typically trade receivables average aging is less than 45 days and tend to be collected rapidly due to the early payment cash discounts offered to clients and distributors. The cash discounts are customary throughout the pharma industry and while they slightly impact our profitability, they facilitate a fast conversion of receivables into cash. • Trade and other receivables have increased significantly between YE-19 and Q2-20 with a $819 or 134% favorable variance. The increase is indicative of the commercial progress made between the 2 reported periods. Valeo launched 3 products in the last months of FY-19 and the commercial performance of these products has improved over the last few quarters and translated into stronger monthly sales in Q2-20 as compared to Q4-19.
Inventory	• The inventory will fluctuate between periods to reflect sales of products and the addition of new supplies required to support existing products or future product launches. Typical shelf life for pharmaceutical products is 18-36 months and for that reason, product requirements for new product launches can often last more than one year and will tend to negatively impact short term cash flows and working capital requirements. • Our Inventory levels at the end of FY-19 and Q2-20 included 5 commercial products. The 16% decrease between YE-19 and Q2-20 results from the sale of products which have not been offset by new inventory purchases. • Over the coming quarters, we are expecting our inventory levels to grow as we add more products to our commercial portfolio.
Total current assets	• Current assets have increased $339 or 21% between the 2 periods mainly as a result of the strong increase in our trade receivables. However, the significant $819 increase in receivable was partially offset by a $335 decrease in our cash balance, and a $91 decrease in inventory.
Intangibles assets	• Intangible assets represent investments made in order to build our product pipeline. For assets owned by Valeo, such as Sodium Ethacrynate, these assets include R&D costs, regulatory and filings costs. For assets licensed, intangible assets include license fees to acquire product rights, regulatory fees and expenses as well as expenses to improve market access for these products. • Intangible assets are amortized using the straight-line method, over the remaining useful life of the asset (or license) starting when the product is ready for commercialization – typically when Valeo receives marketing approval and its first commercial product lot. • Intangible assets are tested quarterly for impairments as per IFRS Standards (IAS 38) to ensure that the recoverable value of each assets exceeds its book-value.

(In thousands of Canadian dollars, except for units, share and per share amounts)

	• Over the period between YE-19 and Q2-20 we have added $781 to our intangible assets, representing the license fees to acquire Yondelis and submission costs and fees for Yondelis, Ametop Gel, sodium Ethacrynate (US), Redesca, and other products. The YTD-20 additions were offset by $157 of amortization, $100 of which was applied to COGS, and $57 to G&A expenses.
Total assets	• Total assets have increase by 22% between YE-19 and Q2-20. The $1,264 increase results mainly from a $624 net increase in intangible assets, and the increase in our trade receivables.
Accounts payables	• Our accounts payables have remained flat between the two periods with a nominal 4% increase. While our trade payables seem high as compared to our trade receivables, our trade payables aging usually average 30-45 days except for accounts that provide flexible payment terms. • Included in our trade payables at the end of Q2-20 is the $650 license payment due to Zambon ($1,000 as at YE-19) which payment terms have been extended to early FY-21, as well as $2,970 ($1,773 at YE-19) for a single supplier who provides extended terms to correlate our collections. After deducting the 2 suppliers, our trade payable position was $1,010 as at the end of Q2-20 ($1,065 at YE-19) compared to $1,432 of trade receivables ($613 as at YE-19).
Bank overdraft and operating loan	• Operating loan has been used to fund operating losses, variation in working capital and investing activities, net of financing secured during the quarter. (See Cash flow section)
Total current liabilities	• Our total current liabilities have increased by $1,723 between YE-19 and Q2-20. The increased is mainly due to the $1,537 use of our operating loan which is used to bridge operating losses and working capital requirements and the timing of our investing and financing activities, as well as a nominal $144 increase (4%) in accounts payables.
Long-term loans	• The $1,001 decrease follows the conversion of the loan secured in the last portion of FY-19 into convertible debentures in Q2-20. (See convertible debentures below)
Convertible debentures	• The Corporation issued a total of $2,178 of convertible debentures during Q2-20 (Gross proceeds). The $2,178 included the conversion of $1,040 of loans secured prior to the end of FY-19, inclusive of accrued interest thereon, as well as new funds secured prior to the closing in February and March 2020. The net amount included deductions for the fair value allocation to the conversion option attached to the debentures as well as transactions costs.
Total liabilities	• Th $2,853 increase combines the increase in short term of $1,537, net increase in our long-term borrowing for $841 described above, as well as $261 of lease liability for the adoption of the IFRS 16 Lease standard.
Share Capital	• The variance reflects the costs of securing debentures convertible into shares.
Warrants	• The variance reflects the costs of issuing warrants during the year.
Contributed Surplus	• $75 increase relates to the stock-based compensation charged since the start of the FY-20.
Deficit	• Increase reflects the performance of the Corporation during the year – Statement of Loss

Revenue and Gross Margin Analysis

The following section provides additional information for better understand of the changes to our revenues and margins that are not described elsewhere in this MD&A document. Our gross margins reflect the contribution from the various products sold for YTD-19 and YTD-20 periods, and variance between the FY-19 and FY-20 include the impact of the Synacthen product shortage which began in Q2-19. For the FY-20 periods, COGS include royalties on sales of Onstryv as well as amortization of our Onstryv license fees. This non-cash item will impact our gross margins for the duration of Zambon license.

	Q2-20	Q2-19	*Change*		**YTD-20**	YTD-19	*Change*	
	$	$	*$*	*%[1]*	**$**	*$*	*$*	*%[1]*
Revenues	**2,081**	981	*1,100*	*112%*	**3,765**	2,751	*1,014*	*37%*
COGS	**1,586**	863	*723*	*84%*	**2,948**	2,371	*576*	*24%*
Gross margin	**494**	118	*377*	*320%*	**817**	380	*437*	*115%*
Gross margin %	**24%**	12%	*12%*	*98%*	**22%**	14%	*8%*	*57%*
Additional Information without Synacthen Revenues								
Revenues[2]	**2,081**	1,367	*714*	*52%*	**3,765**	2,806	*956*	*34%*
Gross Margin[2]	**494**	143	*351*	*245%*	**817**	366	*451*	*123%*
Gross Margin %[2])	**24%**	11%	*13%*	*118%*	**22%**	11%	*11%*	*103%*

1. Percentage change is presented in relative values
2. Numbers adjusted to present product revenues and margins after eliminating Synacthen revenues and COGS

The Synacthen global product shortage

At the end of Q2-19, 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. Due to the global shortage, Valeo was unable to replace the 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. As a result of our inability to supply replacement units, Valeo's revenues for Q2-20 did not include any sale of Synacthen as compared to $386 in Q2-19. 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 resulting from this supply shortage. We currently have no visibility as to when the global shortage of Synacthen will be resolved.

The table above demonstrate the impact of the Synacthen product shortage. After eliminating the impact of Synacthen on our results, the increase in our revenues between Q2-19 and Q2-20 would have been $714 or 52% as opposed to $1,100 and 112%. For the YTD results, the increase in our revenues between YTD-19 and YTD-20 would have been nominal at $956 or 34% as opposed to $1,014 and 37%.

After eliminating the impact of Synacthen on our results, the increase in our gross margin between our 2019 and 2020 results would have also been nominal. However, the impact on our gross margin was 245% as opposed to 320% for the Q2-19 to Q2-20 period, representing a 30% difference.

Other factors impacting our revenues and gross margins going forward

- The most important factor impacting our revenues over the last year has been the launch of new products including 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. We expect to have Onstryv listed for reimbursement in Quebec shortly and this should drive market share gains onward.
- During the last quarter of FY-19, we launched two additional products, Benztropine and Ondansetron ODT. Although the sales contribution for these products has been nominal to date, we are seeing quarterly growth and are highly confident that sales of these products will increase in FY-20 thereby impacting both our total revenues and our gross margins. These products require nominal S&M efforts and gross margin contribution will have a direct impact on our net consolidated results.
- Sales of Ethacrynate Sodium have improved since we launched the product in Q3-18. Sales of this product comes mainly from procurement tenders with Group Purchasing Organizations ("GPOs") and opportunistically when VPI is requested to support market shortages. During FY-20, sales of Ethacrynate Sodium have picked up significantly, our 70-80% gross profit margin for this product has impacted positively our gross margin.
- Excluding Synacthen, Valeo had five (5) products contributing to its product revenues at the end of Q2-20 compared to two (2) products at the end of Q2-19. Four product launches are scheduled to take place over the balance of our fiscal year and 4 more in 2021. These product launches are expected to make Valeo profitable and ensure the Corporation's growth will be financed mainly from internally generated cash flows.

(In thousands of Canadian dollars, except for units, share and per share amounts)

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2-20	Q1-20	Q4-19	Q3-19	**Q2-19**	Q1-19	Q4-18	Q3-18
Revenues	**2,081**	1,684	1,256	2,569	**981**	1,808	1,750	2,111
COGS	**1,586**	1,362	1,115	1,689	**863**	1,546	1,604	1,677
Gross Margin	**495**	322	141	880	**118**	262	146	434
Gross Margin %	***24%***	*19%*	*11%*	*34%*	***12%***	*14%*	*8%*	*21%*
Expenses								
S&M	586	620	709	335	**441**	527	197	124
G&A	654	781	770	548	**775**	708	816	603
Share-Based Compensation	42	33	97	111	**84**	33	71	2
Financing expense	128	64	10	42	**31**	48	46	97
Other income	(53)	(68)	(52)	(64)	**(73)**	(65)	(60)	(65)
Impairment of Investment	**-**	-	-	-	**-**	-	5	-
Total Expenses	**1,357**	1,430	1,534	972	**1,258**	1,221	1,075	761
Net loss before taxes	**(862)**	(1,108)	(1,393)	(92)	**(1,140)**	(989)	(929)	(327)
Recovery of (provision for) income tax	**-**	-	-	-	**-**	-	-	5
Net loss for the quarter	**(862)**	(1,108)	(1,393)	(92)	**(1,140)**	(989)	(929)	(322)
EBITDA (L)	**(640)**	(948)	(1,300)	(38)	**(1,098)**	(933)	(883)	(252)

Notes	**Valuable information**
Total Revenues	• Our revenues have increased by 22% in Q2-20 over Q1-20. This performance follows a strong 34% increase in total revenues in Q2-20 as compared to the prior quarter and comes from market share gains and the continued expansion of our product portfolio. • Total revenues in Q3-19 were impacted by the strong pipeline-fill associated with the successful launch of Onstryv. While re-ordering of Onstryv by pharmacies has been nominal in Q4-19, our FY-20 revenues have been positively impacted by the re-ordering of Onstryv and we expect re-ordering to accelerated sequentially going forward as more patients start using our product and private/provincial reimbursement for Onstryv improves. The anticipated listing of Onstryv on the Quebec formularies for reimbursement will accelerate market share gains for this product. • The launch of Ondansetron and Benztropine took place late in FY-19. Revenues from these two products should continue to trend upward.
COGS and Gross Margin	• Fluctuates with total revenues as well as the mix of product sold. • The strong revenue contribution of recently launched products with more favorable gross margins has led to a strong 54% increase in our gross margins in Q2-20 as compared to Q1-20 at $495 compared to $322. • The Corporation started 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 and currently represents $50 per quarter.
Gross Margin %	• Our Gross Margin % for Q2-20 improved to 24% from 19% in Q1-20 and 12% a year ago. • In Q3-19, gross margin % was impacted by successful launch of Onstryv®. • Going forward we are forecasting our gross margin % to trend upward as we continue to introduce new products that are more profitable for Valeo.
S&M expenses	• S&M expenses have remained stable over the recent quarters with a 5% decrease between Q1-20 and Q2-20. • Since Q4-19 S&M expenses 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. • The increase between Q4-18 and Q1-19 results from the addition of several new staff to prepare for the launch of several products in FY-19. • Our salesforce can support several new products, and this should facilitate an improvement of our net results following the addition of new branded products. Also, VPI products require nominal S&M support.
G&A expenses	• Remained relatively stable over the reported periods despite the fact that Valeo became a reporting issuer following the listing of its shares on the CSE in Q2-19. Incremental investors relation activities have impacted G&A expenses starting Q2-19. G&A expenses have also been reduced following the introduction of several initiatives to protect the Corporation against the possible impact of Covid-19 and accelerate Valeo's quest towards profitability.

(In thousands of Canadian dollars, except for units, share and per share amounts)

	• We foresee our overhead (the combination of S&M and S&G expenses) to be relatively stable over the near future despite the addition of several new products. (See "S&M comments" above)
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 fluctuate between quarters depending on the level of short term and long-term borrowing required to fund our operations. • The addition of convertible debentures and the increased use of our operating line of credit has led to a $67 increase in our financial expense between Q1-20 and Q2-20. • The financial expenses in Q4-19 were relatively low following the closing of a $3.1 million public offering prior to the end of the preceding quarter. Concurrent to the public offering outstanding loans and long-term loans were converted into units, and therefore eliminating an interest-bearing liability.
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	• Over the recent quarters we have seen our loss decrease as a result of improved sales and gross margin performance. Our loss in Q2-20 has been reduced by 22% compared to the previous Q1-20 quarter. This follows a 20% reduction in our loss in Q1-20 compared to Q4-19. • Except for Q3-19 when our results were impacted by the successful launch of Onstryv, our quarterly net loss has been relatively stable during the previous reported periods. • Over the last year, our net results have been impacted by the increase in S&M expenses required to support the launch of Onstryv. Except for additional S&M staff required for the launch of Redesca, we do not anticipate adding any S&M staff to support any of the other product launches planned for the next year. • Considering our stable overhead (See "S&M, G&A comments" above) which translates into an ability to leverage our existing cost structure, we expect our net loss to reduce sequentially over time as we add revenues from the launch of new products and secure incremental market share for products already on the market.
EBITDA (L)	• Similar to our net operating loss, our EBITDA loss has been impacted by the S&M staff addition required to support the launch of products over the last year. • However, the increase in our revenues and margins has significantly reduced our EBITDA loss over the recent quarters. Following a strong 27% improvement in our EBITDA loss in the prior quarter, we have seen our EBITDA loss reduce by a further 32% in Q2-20 compared to Q1-20.

LIQUIDITIES AND CAPITAL RESSOURCES

	For the 6 months ended		change	
	April 30, 2020	April 30, 2019	$	%[1]
Operating Activities:				
Net loss from operations	**(1,970)**	(2,129)	159	(7%)
Other Items not affecting cash	**468**	250	218	88%
Changes in non-cash working capital	**(1,040)**	1,059	(2,099)	(198%)
Cash used in operations	**(2,542)**	(820)	(1,722)	210%
Investing activities				
Cash (used) provided by investing activities	**(354)**	(123)	(231)	188%
Financing Activities				
Cash provided by financing activities	**2,569**	936	1,633	174%
Foreign exchange loss (gain) on cash	**(8)**	(4)	(4)	100%
Increase (decrease) in cash	**(335)**	(11)	(324)	2945%
Cash, beginning of the period	**335**	11	324	2945%
Cash, end of period	**-**	-	-	N/A

1. Percentage change is presented in relative values

	YTD-20 vs YTD-19
Cash used in operations	• 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 and representing mainly our net loss was $1,970 in YTD-20 compared to $2,219 for the YTD-19 representing a 7% improvement. • Other items not affecting cash have increased by 88% to $468 for YTD-20 compared to $250 for YTD-19. This variance is mainly due to the increase in amortization and depreciation charges between the 2 periods.

(In thousands of Canadian dollars, except for units, share and per share amounts)

	• Changes in non-cash working capital components used $1,040 of cash in Q2-20 compared to providing $1,059 of cash in Q2-19 for a net $2,099 difference. The strong increase in our trade receivables has had a negative impact during the YTD-20 period compared to YE-19 with a nominal change to our accounts payable as compared to a $103 reduction of our receivables and $908 increase in our payables for the same YTD period last year.
Cash used in investing activities	• Cash used by investing activities to acquire intangible assets during the period was $354 in YTD-20 as compared to $123 for YTD-19. • Valeo carries 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	• During YTD-20, financing activities provided cash of $2,569 via the use of our operating line of credit for $1,530 and the addition of convertible debentures for $1,111. This compares to $936 for the YTD-19 mainly coming from $900 of new debentures which were converted upon the listing of the Corporation's shares on the CSE in February 2029.

Liquidity and Capital Resources

Going Concern

This MD&A has 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 six-month period ended on April 30, 2020, the Company incurred a net loss of $1,970, used cash in operations of $2,542 and had a working capital deficiency of $4,210 at the end of the period. 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. Management anticipates that the commercialization of new products will provide incremental cash flow that could contribute to working capital requirements. There are no assurances that any of these initiatives will be successful. Factors within and outside the Corporation's control could have a significant bearing on its ability to obtain additional financing or on the generation of additional revenues.

These quarterly 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.

An outbreak of a novel strain of coronavirus, identified as "COVID-19", was declared a global pandemic by the World Health Organization on March 11, 2020. In response, many countries have required entities to limit or suspend business operations and implemented travel restrictions and quarantine measures. These measures have disrupted the activities of many entities and have led to significant volatility in the global markets. The Corporation continues to monitor and actively manage the developing impacts from COVID-19, including but not limited to, the potential future effects on its assets, cash flow and liquidity, and will continue to assess impacts to the Corporation's operations, going concern assumption, and the value of assets and liabilities reported in these statements. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

Liquidities

As at,	**April 30, 2020**	October 31, 2019	*Change*	
	$	$	*$*	*%[1]*
Cash	**-**	335	*(335)*	*(100%)*
Trade and other receivables	**1,432**	613	*819*	*134%*
inventory	**470**	561	*(91)*	*(16)*
Trade accounts payables	**3,980**	3,838	*141*	*4%*
Working Capital[2]	**(4,210)**	(2,826)	*(1,384)*	*(49%)*
Total assets	**7,071**	5,807	*1,264*	*22%*

1. Percentage change is presented in relative values
2. Working capital is a measure of current assets less current liabilities

As indicated in the Balance Sheet section ("Accounts payables") our trade accounts payables as at Q2-20 and YE-19 include a $650 license fee due to Zambon ($1,000 as at YE-19) which has been extended to early FY-21, as well as $2,970 ($1,773 at YE-19) for a single supplier who provides extended terms to correlate our collections. After deducting the 2 suppliers, our trade payable position was $1,010 as at the

(In thousands of Canadian dollars, except for units, share and per share amounts)

end of Q2-20 compared to $1,432 of trade receivables. This compares with trade payables of $1,065 at YE-19 after deducting these 2 suppliers compared to $613 of trade receivables.

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 convertible or non-convertible debt.

As funding requirements to acquire product rights 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 $ nil to $5 million. The Corporation anticipates that commencement of additional product distribution agreements and other revenue contracts will provide incremental cash flow that can contribute to working capital requirements.

Also, the Corporation's prior initiatives related to product acquisition rights and regulatory filings have and will continue to drive a series of product launches over the coming quarters. In addition to the launch of Onstryv in Q3-19, as well as Ondansetron ODT and Benztropine in Q4-19, the Corporation expects to launch four more products during the FY-20 and 4 additional products in FY-21 directly or through its US distributor.

The combination of these new product launches which also include the highly anticipated launch in Q1-21 of Redesca, the first LMWH biosimilar filed in Canada, may materially impact both the Corporation's product revenues as well as the Corporation's gross margin, and consequently reduce and possibly eliminate the need for further financings to fund our operations.

Transactions with Related Parties

The following table presents the related party transactions presented in the statement of loss for the respective periods:

	Three months ended		Six months ended	
	April 30, 2020	April 30, 2019	**April 30, 2020**	April 30, 2019
Key management salary and benefits	**277**	193	**468**	398
Directors and employee stock option compensation	**42**	84	**75**	117
Consulting fee paid to a company controlled by an officer	**41**	61	**86**	106

The following table represents the related party transactions presented in the statement of financial position as at:

	April 30, 2020	October 31, 2019
Compensation owed to a person who is an officer	**30**	30
Consulting fees owed to a company controlled by an officer	**7**	10
Expenses owed to a consultant and incurred in the normal course of business	**3**	1

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 April 30, 2020. Long term loans and convertible debt issued to existing and new shareholders/lenders will 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 April 30, 2020 the Corporation is not subject to any externally imposed capital requirements.

RECENTLY ADOPTED ACCOUNTING POLICIES

IFRS 16 Leases

In January 2016, the IASB released IFRS 16 "Leases" replacing IAS 17 "Leases" and related interpretations. 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). IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Corporation has adopted IFRS 16, effective November 1, 2019, using the modified retrospective approach and has not restated prior periods for the impact of IFRS 16. Comparative information is still reported under IAS 17 and IFRIC 4.

On initial adoption, the Corporation applied the following practical expedients permitted under the standard: (i) short-term leases and leases of low value assets that have been identified at November 1, 2019 are not recognized on the condensed interim balance sheet; (ii) leases with terms ending within 12 months of November 1, 2019 are treated as short-term leases and have not been recognized on the condensed interim balance sheet; (iii) contracts that were not previously identified as containing a lease under the previous standard have not been reassessed under IFRS 16; (iv) initial direct costs were excluded from the measurement of right-of-use assets for the purpose of initial measurement on transition; (v) a single discount rate was used for remaining lease payments on leases with similar characteristics; (vi) the Corporation 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 has relied on historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 12%.

(In thousands of Canadian dollars, except for units, share and per share amounts)

The impact on transition is summarized below:

	November 1, 2019
Recognition of right of use assets	**348**
Recognition of lease liabilities	**348**

Statement of Compliance

The unaudited financial statements included in this MD&A for the quarter ended on April 30, 2020 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 unaudited 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

a) On June 18, 2020, the Corporation received a $220 loan from Manitex Capital Inc. The loan included a $50 commitment into a non-convertible debenture financing expected to take place before the end of Q3-20. The balance represents a $170 Demand Promissory Note, with interest at 12% per annum. The Note may be repaid by Valeo, in whole or in part, at any time.

b) On June 30, 2020, the Corporation issued 1.55 million options to its staff and management as consideration for having agreed to a 5-month reduction of their compensation. On April 6, 2020, in response to the COVID-19 outbreak, Valeo implemented certain cost-related measures aimed at addressing possible short and long-term financial impact that the crisis may have on the company. These measures were implemented in order to ensure Valeo is in the best position when the Covid-19 outbreak is over. The pricing and vesting terms of the options were set in accordance with the Corporation's Option Plan.

c) On June 30, 2020, the Corporation issued 1.5 million warrants with an exercise price of $0.60 and expiring June 30, 2021. The warrants were issued to non-related persons providing social media support and corporate branding services.

Interim Condensed Consolidated Financial Statements (Unaudited)

Valeo Pharma Inc.

April 30, 2020
Second quarter, fiscal year 2020

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited interim financial statements of the Corporation have been prepared by management and are the responsibility of the Corporation's management. The Corporation's independent auditor has not performed a review or an audit of these interim financial statements

Valeo Pharma Inc.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

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

As at	Notes	April 30, 2020	October 31, 2019
ASSETS			
Current			
Cash		**-**	335
Trade and other receivables	*4*	**1,432**	613
Inventory		**470**	561
Prepaid expenses		**88**	142
Total current assets		**1,990**	1,651
Property and equipment		**285**	296
Right of use asset	*5*	**312**	-
Intangible assets	*6*	**4,484**	3,860
Total assets		**7,071**	5,807
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current			
Bank overdraft		**7**	-
Operating loan	*7*	**1,530**	-
Trade accounts payables	*8*	**3,980**	3,838
Other accounts payable and accrued liabilities	*8*	**525**	539
Provision for product returns		**97**	100
Lease liability	*9*	**61**	-
Total current liabilities		**6,200**	4,477
Long-term loans	*10*	**-**	1,001
Convertible debentures	*11*	**1,842**	-
Lease liability	*9*	**261**	-
Defined benefit obligation		**379**	351
Total liabilities		**8,682**	5,829
SHAREHOLDERS' DEFICIT			
Share capital	*12*	**8,794**	8,829
Warrants	*12*	**620**	598
Equity component of convertible debenture	*11*	**367**	-
Contributed surplus		**667**	592
Deficit		**(11,686)**	(9,716)
Accumulated other comprehensive loss		**(373)**	(325)
Total shareholders' deficit		**(1,611)**	(22)
Total liabilities and shareholders' deficit		**7,071**	5,807

Going Concern (note 1); Related Party Transactions (note 18); Subsequent events (note 21)

These unaudited condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on June 30, 2020.

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

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

Valeo Pharma Inc.

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

All amounts in thousands of Canadian dollars, except for share and per share amounts
For the three and six months ended April 30,

		Three months ended,		Six months ended,	
	Notes	**April 30, 2020**	April 30, 2019	**April 30, 2020**	April 30, 2019
Revenues		**2,081**	981	**3,765**	2,752
Cost of Goods Sold		**1,586**	863	**2,948**	2,372
Gross Profit		**495**	118	**817**	380
Expenses					
Sales and marketing	*14*	**586**	441	**1,206**	968
General and administrative	*15*	**654**	775	**1,435**	1,483
Share based compensation	*12*	**42**	84	**75**	117
Financial	*16*	**128**	31	**192**	79
Other income	*17*	**(53)**	(73)	**(121)**	(138)
Total Expenses		**1,357**	1,258	**2,787**	2,509
Net loss before income taxes		**(862)**	(1,140)	**(1,970)**	(2,129)
Provision for income taxes					
Current		**-**	-	**-**	-
Net loss for the period		**(862)**	(1,140)	**(1,970)**	(2,129)
Other comprehensive loss					
Exchange differences on translating foreign operations		**(7)**	(3)	**(8)**	(3)
Defined benefit plan, net actuarial (loss) gain		**(40)**	(71)	**(40)**	(71)
Total comprehensive loss		**(909)**	(1,214)	**(2,018)**	(2,203)
Loss per share:					
Basic and diluted		**(0.02)**	(0.03)	**(0.04)**	(0.05)
Weighted average number of shares outstanding		**56,659,423**	47,726,835	**56,659,423**	46,291,520

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

Valeo Pharma Inc.

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

In thousands of Canadian dollars
For the six months ended April 30,

							Accumulated OCI		
	Notes	Common Shares $	Warrants $	Equity component of convertible debentures $	Deficit $	Contributed surplus $	Defined benefit plan $	Foreign exchange translation $	Total $
Balance as at October 31, 2018		4,659	-	-	(6,101)	267	(159)	(33)	(1,367)
Net loss		-	-	-	(2,129)	-	-	-	(2,129)
Other Comprehensive loss				-	-		(71)	(3)	(74)
Share based compensation		-	-	-	-	117	-	-	117
Share issue costs		(100)	-	-	-	-	-	-	(100)
Conversion of debentures		1,427	-	-	-	-	-	-	1,427
Balance as at April 30, 2019		5,986	-	-	(8,230)	384	(230)	(36)	(2,126)
Balance as at October 31, 2019		**8,829**	**598**	**-**	**(9,716)**	**592**	**(292)**	**(33)**	**(22)**
Net loss		**-**	**-**	**-**	**(1,970)**	**-**	**-**	**-**	**(1,970)**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**(40)**	**(8)**	**(48)**
Share issue costs	*12*	**(35)**	**-**	**-**	**-**	**-**	**-**	**-**	**(35)**
Convertible debentures	*11*	**-**	**-**	**367**	**-**	**-**	**-**	**-**	**367**
Consulting fees		**-**	**22**	**-**	**-**	**-**	**-**	**-**	**22**
Share based compensation	*12*	**-**	**-**	**-**	**-**	**75**	**-**	**-**	**75**
Balance as at April 30, 2020		**8,794**	**620**	**367**	**(11,686)**	**667**	**(332)**	**(41)**	**(1,611)**

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

Valeo Pharma Inc.

Interim Condensed Consolidated Statements of Cash Flow
(Unaudited)

In thousands of Canadian dollars
For the six months ended April 30,

	Notes	**2020**	2019
Operating activities:			
Net loss from operations		**(1,970)**	(2,129)
Add (deduct) items not affecting cash:			
Depreciation of property and equipment		**50**	19
Amortization of intangible assets	*6*	**157**	7
Provision for sales returns		**52**	48
Share based compensation	*12*	**75**	117
Share issue costs		**-**	21
Interest expense		**121**	55
Consulting fees paid by issuance of warrants	*12*	**22**	-
Unrealized (gain) loss on foreign exchange		**15**	(22)
Funding of defined benefit plan		**(24)**	5
Net change in non-cash operating working capital		**(1,040)**	1,059
Cash used by operations		**(2,542)**	(820)
Investing activities:			
Acquisition of property and equipment		**(3)**	(15)
Acquisition of intangible assets		**(351)**	(108)
Cash used by investing activities		**(354)**	(123)
Financing activities:			
Increase in bank indebtedness		**7**	95
Increase (decrease) in operating loan		**1,530**	-
Increase in convertible debentures		**1,111**	900
Payment of share issue costs		**(32)**	(49)
Funding of defined benefit plan		**-**	(10)
Payment of lease costs		**(47)**	-
Cash provided (used) by financing activities		**2,569**	936
Foreign exchange loss on cash		**(8)**	(4)
Decrease in cash		**(335)**	(11)
Cash, beginning of period		**335**	11
Cash, end of period		**-**	-

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

1. Presentation of Financial Statements

Description of the Business

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

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

Statement of Compliance

These unaudited interim condensed consolidated financial statements of the Corporation have been prepared for the three and six months ended April 30, 2020 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements have been prepared in accordance with those IFRS standards and interpretations of the International Financial Reporting Interpretations Committee issued and effective or issued and early adopted as at the time of preparing these statements. These unaudited interim condensed consolidated financial statements do not include all the information required for full disclosure in the annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2019 as they follow the same accounting policies and methods of application.

These unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on June 30, 2020.

Going Concern

These unaudited interim condensed 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 unaudited interim condensed consolidated financial statements, the Company is in the process of ramping up its activities and has not yet achieved profitability. During the period ended April 30, 2020, the Company incurred a net loss of $1,970, used cash in operations of $2,542 and had a working capital deficiency of $4,210. 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 Management anticipates that the generation of additional revenues out of its existing products and the commercialization of new products will enable it 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 unaudited interim condensed 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.

An outbreak of a novel strain of coronavirus, identified as "COVID-19", was declared a global pandemic by the World Health Organization on March 11, 2020. In response, many countries have required entities to limit or suspend business operations and implemented travel restrictions and quarantine measures. These measures have disrupted the activities of many entities and have led to significant volatility in the global markets. The Corporation continues to monitor and actively manage the developing impacts from COVID-19, including but not limited to, the potential future effects on its assets, cash flow and liquidity, and will continue to assess impacts to the Corporation's operations, going concern assumption, and the value of assets and liabilities reported in these statements. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

(All amounts in thousands of Canadian dollars)

2. Summary of Significant Accounting Policies

Basis of consolidation

These unaudited interim condensed consolidated financial statements consolidate those accounts of the Corporation and its wholly owned subsidiaries (the "Group"). All subsidiaries have a quarterly reporting date of April 30. 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 unaudited interim condensed consolidated financial statements have been prepared on a going-concern basis, under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value.

Recently adopted accounting policies

IFRS 16, Leases

In January 2016, the IASB released IFRS 16 "Leases" replacing IAS 17 "Leases" and related interpretations. 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). IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Corporation has adopted IFRS 16, effective November 1, 2019, using the modified retrospective approach and has not restated prior periods for the impact of IFRS 16. Comparative information is still reported under IAS 17 and IFRIC 4.

On initial adoption, the Corporation applied the following practical expedients permitted under the standard: (i) short-term leases and leases of low value assets that have been identified at November 1, 2019 are not recognized on the condensed interim balance sheet; (ii) leases with terms ending within 12 months of November 1, 2019 are treated as short-term leases and have not been recognized on the condensed interim balance sheet; (iii) contracts that were not previously identified as containing a lease under the previous standard have not been reassessed under IFRS 16; (iv) initial direct costs were excluded from the measurement of right-of-use assets for the purpose of initial measurement on transition; (v) a single discount rate was used for remaining lease payments on leases with similar characteristics; (vi) the Corporation 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 has relied on historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 12%.

The impact on transition is summarized below:

	November 1, 2019
Recognition of right of use assets	**348**
Recognition of lease liabilities	**348**

Accounting policy applicable from November 1, 2019

For any new contracts entered on or after November 1, 2019, the Corporation considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period in exchange for any consideration. To apply this definition the Corporation assesses whether the contract meets three key evaluations which are whether; (i) the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Corporation; (ii) the Corporation has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and (iii) the Corporation has the right to direct the use of the identified assets throughout the period of use. The Corporation assesses whether it has the right to direct how and for what purpose the asset is used throughout the period of use.

(All amounts in thousands of Canadian dollars)

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

As a lessee, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Corporation, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Corporation also assesses the right-of-use asset for impairment when such indicators exist. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Corporation's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed payments), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. After initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Corporation has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

As a lessor the Corporation would classify its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not. Lease payments received under operating leases are recognized as income on a straight-line basis over the lease term.

Accounting policy applicable before November 1, 2019

Leases are classified as finance or operating leases. A lease is classified as a finance lease if it effectively transfers substantially the entire risks and rewards incidental to ownership. At the commencement of the lease, the Corporation recognizes finance leases as an asset acquisition and an assumption of an obligation in the balance sheet at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the incremental borrowing rate is used. The interest element of the lease payment is recognized as finance cost over the lease term to achieve a constant periodic rate of interest on the remaining balance of the liability. Any initial direct costs of the lessee are added to the amount recognized as an asset. The useful life and depreciation method are determined on a consistent basis with the Corporation's policies for property and equipment. The asset is depreciated over the shorter of the lease term and its useful life. All other leases are accounted for as operating leases, wherein payments are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized.

3. Use of Estimates and Judgements

The preparation of the unaudited interim condensed consolidated financial statements requires management to undertake several judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from these judgements and estimates. These estimates and judgements are based on management's best knowledge of the events or circumstances and actions the Corporation may take in the future. The estimates are reviewed on an ongoing basis. Information about the significant judgements, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in *Note 3* of the Corporation's 2019 annual financial statements and are still applicable for the six months ended April 30, 2020.

4. Trade and Other Receivables

	April 30, 2020	October 31, 2019
Trade receivables	**1,109**	381
Receivables from related party	**276**	105
Receivables from others	**3**	67
Sales taxes receivable	**44**	60
	1,432	613

(All amounts in thousands of Canadian dollars)

5. Right of Use Asset

The following table presents the changes in right of use asset during the period:

	Cost	Accumulated Amortization	Carrying Value
Balance as at November 1, 2019, on adoption of IFRS 16	347	-	347
Additions	-	(35)	(35)
Balance as at April 30, 2020	**347**	**(35)**	**312**

6. Intangible Assets

	Submission costs	License fee	Total
Balance as at October 31, 2019	1,880	1,980	3,860
Additions	417	364	781
Amortization	(57)	(100)	(157)
Balance as at April 30, 2020	**2,240**	**2,244**	**4,484**

7. Operating Loan

On April 24, 2020, the Corporation amended its revolving demand credit facility with its present lender. At all times, borrowed amounts under the facility will not exceed 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 (85% for investment grade 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 the 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$. The interest rates for prime based loans are prime rate plus 0.75% per annum; and USBR plus 0.75% per annum for USBR loans. For letters of guarantee the rate applicable will be that set out in the letter of credit indemnity agreement applicable to the issued letter of guarantee.

8. Accounts Payable and Accrued Liabilities

	April 30, 2020	October 31, 2019
Trade accounts payable	**3,940**	3,838
Payables to related parties *(note 18)*	**40**	41
Other accounts payable and accrued liabilities	**525**	498
	4,505	4,377

9. Lease Liability

The following table presents the changes in the lease liability during the period:

Balance as at November 1 on adoption of IFRS 16	**348**
Interest expense	**20**
Lease payments	**(46)**
Balance as at April 30, 2020	**322**
Which consists of	
Current lease liability	**61**
Non-current lease liability	**261**

10. Long Term Loans

Long-term loans include the capital and interest portion of unsecured loans representing advances made as part of the Corporation's debenture financing.

	Interest rates	Maturity Date	As at April 30, 2020	As at October 31, 2019
Unsecured	12% per month	February 27, 2022	**-**	1,001

Long-term loans, plus accrued interest were converted into convertible debentures on February 27, 2020.

(All amounts in thousands of Canadian dollars)

11. Convertible Debentures

	Six months ended April 30, 2020	Year ended October 31, 2019
Opening balance	**-**	507
Additions	**1,138**	900
Fair value of conversion option allocated to equity	**(367)**	-
Transaction costs	**(19)**	-
Accretion expense	**50**	20
Conversion of convertible debentures	**-**	(1,427)
Conversion of long-term loans	**1,040**	-
	1,842	-

On February 27th, 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. A subsequent closing for additional gross proceeds of $100 took place on March 26th, 2020 on the same terms with a maturity date of March 26, 2023.

The Corporation valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 20%, being management's best estimate of the rate that a nonconvertible debenture with similar terms would bear as at February 27, 2020 and March 26, 2020. The equity component consists of the conversion option. On initial recognition, the liability components were $1,811, and the conversion options were $367. Transaction costs of $19 were netted against the liability and will be amortized using the effective interest method over the period of the loan. A further $4 in transaction costs, related to the equity component of the derivative liability, were capitalized to share issue costs.

Accretion charges, included in financing expense on the statement of loss and comprehensive loss, attributable to the debentures for the six months ended April 30, 2020 was $50.

During fiscal year 2019, Valeo issued $900 of additional unsecured subordinated convertible debentures, maturing on or before January 31, 2020. The debentures bear interest at 5% per annum from the date of issue, payable quarterly in arrears. On February 15, 2019, Valeo converted $1,400 of outstanding debentures, plus accrued interest of $27 into 3,567,158 Class "A" common shares, representing a conversion price of $0.40 per share.

12. Share Capital and other equity instruments

(a) 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:

	2020		2019	
Class "A" common shares	**Number**	**$**	Number	$
Balance as at October 31,	56,659,423	8,829	44,903,008	4,659
Share Issue costs	-	(35)	-	(100)
Conversion of convertible debentures into shares (i)	-	-	3,567,158	1,427
Balance as at April 30,	**56,659,423**	**8,794**	48,470,166	5,986

(i) On February 18, 2019, convertible debentures in the amount of $1,427 were surrendered and converted into 3,567,158 Class A Share

(b) Share based compensation

In 2018, the Corporation adopted an amended and restated stock option incentive plan for directors, officers and employees to enable the purchase of common shares of the Corporation. The exercise price for these shares cannot be less than the lowest price permitted by applicable regulatory authorities. Subject to the terms of the plan, the Board of Directors may, from time to time, grant options to participants to purchase that number of shares that, they determine, in their absolute discretion. The shares subject to each option shall become available for purchase by the participant from the Corporation on the date or dates determined by the Board of Directors when the option is granted. In the event of the termination of an optionee who is either an employee or director/officer, the Board of Directors may extend the period during which the optionee may exercise the options provided such period does not exceed three months from termination of employment or duties as director. The number of shares subject to an option shall not exceed 10% of the total issued and outstanding Common shares; and no one optionee shall be granted options that exceed 5%, 2% for any one consultant and 2% for any one person retained to provide investor relation services of the issued and outstanding common shares of the Corporation (on a non-diluted basis), during a 12 month period.

(All amounts in thousands of Canadian dollars)

12. Share Capital and other equity instruments – *cont'd*

Changes in outstanding options during the period were as follows:

	Six months ended, April 30, 2020		Year ended, October 31, 2019	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding, beginning of year	**2,963,032**	**$0.40**	1,740,810	$0.37
Forfeited during the period	**(25,000)**	**$0.40**	(150,000)	$0.40
Expired during the period	**-**	**-**	(50,000)	$0.40
Granted during the period	**50,000**	**$0.40**	1,422,222	$0.43
Options outstanding, end of period	**2,988,032**	**$0.40**	2,388,032	$0.40
Options exercisable, end of period	**1,670,671**	**$0.38**	1,309,509	$0.37

The following options were granted in the respective reporting periods:

For the six months ended April 30, 2020

Number	Notes	Date of grant	Expiry date	Exercise price	Fair value
50,000	(i)	March 26, 2020	March 25, 2025	$0.40	$0.11
50,000					

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

For the year 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					

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

(ii) These 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.

The remaining contractual life for the share options outstanding as at April 30, 2020 are:

Number	Exercisable	Fair Value	Exercise price	Remaining contractual life
365,810	365,810	$0.14	$0.25	1.01
2,197,222	1,123,611	$0.10 - $0.40	$0.40	5.01
425,000	181,250	$0.01 - $0.45	$0.50	4.19
2,988,032	**1,670,671**			

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	59.43% - 90%
Expected life	2.6 - 4.6 years
Expected dividend rate	0%
Forfeiture rate	0%

The expected stock price volatility of was estimated by using historical data from public companies in the same sector and the duration of each of the award. The total share-based compensation in the six months ended April 30, 2020 was $75 (2019 - $117) recognized in contributed surplus.

(All amounts in thousands of Canadian dollars)

12. Share Capital and other equity instruments – *cont'd*

(c) Warrants

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

	Number of shares	Weighted Average Exercise Price
Balance as at October 31, 2019	8,189,257	$0.60
Issued during the period	150,000	$0.40
Balance as at April 30, 2020	**8,339,257**	**$0.60**

As at April 30, 2020, 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	$0.09	2.24
150,000	January 15, 2020	January 15, 2022	$0.40	$0.15	1.71
8,339,257					**2.16**

During the six months ended April 30, 2020, 150,000 warrants were issued whose value was determined using the Black Scholes option pricing model with a risk-free rate of 1.63%; a volatility of 59%; an expected life of 2.0 years with a nil expected dividend and forfeiture rate.

13. Supplemental Cash Flow Information

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

	Six months ended	
	April 30, 2020	April 30, 2019
Increase in trade receivables	**(925)**	(110)
Decrease (increase) in prepaid expenses	**54**	(16)
Decrease in inventory	**91**	-
Increase in other receivables	**106**	(45)
(Decrease) increase in accounts payable and accrued liabilities	**(366)**	848
	(1,040)	677

14. Sales and Marketing Expenses

	Three months ended		Six months ended	
	April 30, 2020	April 30, 2019	**April 30, 2020**	April 30, 2019
Sales expenses	**89**	108	249	217
Marketing expenses	**202**	211	316	499
Employee compensation	**295**	122	641	252
	586	441	1,206	968

15. General and Administrative Expenses

	Three months ended		Six months ended	
	April 30, 2020	April 30, 2019	**April 30, 2020**	April 30, 2019
Depreciation of property and equipment	**25**	10	50	20
Amortization of intangible assets (*Note 6*)	**29**	3	57	6
Administrative expenses	**272**	365	665	668
Product development costs	**-**	3	-	14
Employee compensation	**328**	394	663	775
	654	775	1,435	1,483

(All amounts in thousands of Canadian dollars)

16. Financial Expenses

	Three months ended		Six months ended	
	April 30, 2020	April 30, 2019	**April 30, 2020**	April 30, 2019
Interest on loans	**16**	18	51	35
Interest on debentures	**50**	3	50	20
Lease interest	**10**	-	20	-
Foreign exchange fluctuation	**5**	(4)	7	(3)
Credit facility costs and bank charges	**47**	14	64	27
	128	**31**	192	79

17. Other Income

	Three months ended		Six months ended	
	April 30, 2020	April 30, 2019	**April 30, 2020**	April 30, 2019
Rental income	**6**	8	14	16
Service income	**47**	65	107	122
	53	73	121	138

18. Related Party Transactions

The following table presents the related party transactions presented in the statement of loss for the respective periods:

	Three months ended		Six months ended	
	April 30, 2020	April 30, 2019	**April 30, 2020**	April 30, 2019
Key management salary and benefits	**277**	193	**468**	398
Directors and employee stock option compensation	**42**	84	**75**	117
Consulting fee paid to a company controlled by an officer	**41**	61	**86**	106

The following table represents the related party transactions presented in the statement of financial position as at:

	April 30, 2020	October 31, 2019
Compensation owed to a person who is an officer	**30**	30
Consulting fees owed to a company controlled by an officer	**7**	10
Expenses owed to a consultant and incurred in the normal course of business	**3**	1

19. Financial Instruments

The tables below indicate the carrying values of assets and liabilities. As at April 30, 2020 and October 31, 2019, the Corporation had no financial instruments carried at fair value through profit and loss or fair value through other comprehensive income.

April 30, 2020,	**Amortized cost**
Financial assets:	
Trade and other receivables	**1,432**
	1,432
Financial liabilities:	
Bank overdraft	**7**
Operating Loan	**1,530**
Accounts payable and accrued liabilities	**4,505**
Lease liability	**322**
Convertible debenture	**1,842**
	8,206

(All amounts in thousands of Canadian dollars)

19. Financial Instruments – *cont'd*

October 31, 2019,	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

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

The Corporation categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observation of the inputs used in the measurement. For the periods ended April 30, 2020 and October 31, 2019, the Corporation did not have any financial instrument measured at fair value. 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 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.

20. 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 also holds cash denominated in US dollars and accounts payable and accrued liabilities denominated various currencies. The Corporation does not hold financial derivatives to manage the fluctuation of these risks. As at April 30, 2020 and 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. As at April 30, 2019, a 5% increase/decrease in the EUR/CDN exchange rate would have a $20.8 impact on net loss (October 31, 2019 – nil).

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

	April 30, 2020		October 31, 2019	
	Foreign Currency	**CDN equivalent**	Foreign Currency	CDN equivalent
Cash – USD	**9.5**	**13.2**	3.7	4.9
Accounts payable and accrued liabilities – USD	**88.7**	**123.3**	146.7	193.1
Accounts payable and accrued liabilities – EUR	**274.1**	**416.3**	-	-
Accounts payable and accrued liabilities – AUD	**-**	**-**	44.2	40.1

(All amounts in thousands of Canadian dollars)

20. Financial Risk Factors – *cont'd*

(ii) Cash flow and fair value interest rate risk

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

(b) Credit Risk

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

The Corporation sells its products through a small number of wholesalers and retail pharmacy chains. As at April 30, 2020, 38% of trade accounts receivables are current (less than 30 days). As at April 30, 2020, three customers accounted for 72% of the trade receivables. The Corporation believes that there is no unusual exposure associated with the collection of these receivables.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at April 30, 2020.

	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Bank overdraft	**7**	**-**	**-**	**-**	**7**
Bank indebtedness	**-**	**-**	**1,530**	**-**	**1,530**
Accounts payable and accrued liabilities	**588**	**356**	**3,561**	**-**	**4,505**
Provision for product returns	**-**	**-**	**97**	**-**	**97**
Convertible debentures	**-**	**-**	**-**	**1,842**	**1,842**
Lease liability	**4**	**9**	**48**	**261**	**322**
	599	**365**	**5,236**	**2,103**	**8,303**

(d) Capital risk management

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 its shareholders.

The Corporation manages its 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, the use of credit facilities or by issuing long-term debt or issuing securities in order to make the 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. As at April 30, 2020 the Corporation was not subject to any externally imposed capital requirements.

21. Subsequent events

a) On June 18, 2020, the Corporation received a $220 loan from Manitex Capital Inc. The loan included a $50 commitment into a non-convertible debenture financing expected to take place before the end of Q3-20. The balance represents a $170 Demand Promissory Note, with interest at 12% per annum. The Note may be repaid by Valeo, in whole or in part, at any time.

b) On June 30, 2020, the Corporation issued 1.55 million options to its staff and management as consideration for having agreed to a 5-month reduction of their compensation. On April 6, 2020, in response to the COVID-19 outbreak, Valeo implemented certain cost-related measures aimed at addressing possible short and long-term financial impact that the crisis may have on the company. These measures were implemented in order to ensure Valeo is in the best position when the Covid-19 outbreak is over. The pricing and vesting terms of the options were set in accordance with the Corporation's Option Plan.

c) On June 30, 2020, the Corporation issued 1.5 million warrants with an exercise price of $0.60 and expiring June 30, 2021. The warrants were issued to non-related persons providing social media support and corporate branding services.