Financial Report

Third Quarter - Fiscal Year 2020

July 31, 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 third quarter ended July 31, 2020. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the quarter ended July 31, 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 September 29, 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

The non-IFRS measures included in this MD&A are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. When used, these measures are defined in such terms as to allow the reconciliation to the closest IFRS measure. These measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from our perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. Despite the importance of these measures to management in goal setting and performance measurement, we stress that these are non-IFRS measures that may have limits in their usefulness to investors.

We use non-IFRS measures, such as EBITDA and Adjusted EBITDA to provide investors with a supplemental measure 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. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the valuation of issuers. We also use non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets, and to assess our ability to meet our future debt service, capital expenditure and working capital requirements.

The definition and reconciliation of EBITDA and Adjusted EBITDA used and presented by the Company to the most directly comparable IFRS measures follows below:

EBITDA is defined as net (loss)/income adjusted for income tax, depreciation of property and equipment, amortization of right of use asset, amortization of intangible assets, interest on short and long-term debt and other financing costs, interest income, licensing revenue and changes in fair values of derivative financial instruments. Management uses EBITDA to assess the Company's operating performance.

Adjusted EBITDA is defined as EBITDA adjusted for, as applicable, 1) share based compensation and other warrants or options issuance costs, 2) settlement for contract terminations such as severance for executives, or penalties for early termination of multi-year contracts, 3) impairment of intangible asset, 4) charges related to product recalls or contractual inventory returns not related to product shelf life, and 5) listing fees not related to share issuance. We use Adjusted EBITDA as a key metric in assessing our business performance when we compare results to budgets, forecasts and prior years. Management believes Adjusted EBITDA is an alternative measure of cash flow generation than, for example, cash flow from operations, particularly because it removes cash flow fluctuations caused by unusual changes in working capital. A reconciliation of net (loss)/income to EBITDA (and Adjusted EBITDA) are presented later in this document.

Oher non-IFRS measures that are useful for interpreting our results are presented below:

Cost of Sales as % of Gross Revenues provides a better appreciation of the real COGS for product sold. We track this ratio to better appreciate the impact of introducing more profitable products into our commercial pipeline of product. While gross margin provides the net contribution of product sold after deducting recurrent and non-recurrent adjustments, cost of sales as % of gross revenues gives a better indication of the gross product margins.

Gross to net sales ratio represents the ratio of net product revenues over gross product revenues and reflects the impact of sales adjustments and other deductions to product revenues. We use gross to net sales ratio as a management tool to better appreciate the impact of sales adjustments and deductions on our revenue performance and ultimately our profitability. Sales adjustments and other deductions include items such as early payment discounts, product returns, price adjustments, professional allocations to retailers/pharmacies, sales upcharges, product listing agreement fees and others.

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.

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

GLOSSARY TERMS

Calendar & Financial

COGS	Cost of Goods Sold (or Cost of Sales)
IR	Investors Relation
G&A	General and Administrative
S&M	Sales and Marketing
SBC	Share-Based Compensation
SG&A	Sales General and Administrative (Combines S&M and G&A
FY-20	Fiscal Year 2020
FY-19	Fiscal Year 2019
Q3-20	Third quarter FY-20
Q2-20	Second quarter FY-20
Q1-20	First quarter FY-20
Q4-19	Fourth quarter FY-19
Q3-19	Third quarter FY-19
Q2-19	Second quarter FY-19
Q1-19	First quarter FY-19
QoQ	Current year quarterly results vs last year quarterly results
YTD	Year to date
YoY	Current YTD results vs last YTD results
W/C	Working Capital, defined as short-term assets less short-term liabilities

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
FSE	Frankfurt Stock Exchange
GDUFA	Generic Drug User Fee Act in the USA
HC	Health Canada
INESSS	Quebec's Institut national d'excellence en santé et services sociaux
LMWH	Low Molecular Weight Heparin
NDS	New Drug Submission with Health Canada
OTCQB	U.S. over-the-counter venture market operated by OTC Markets
PD	Parkinson's Disease
PLA	Product listing agreement
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. 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 and OTC 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/OTC 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 seven (7) 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.

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

Product Portfolio

As at the end of Q3-20, Valeo Pharma's product portfolio included eight (8) commercial stage products as well as five (5) 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 supply of finished products is 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 2 products that are expected to have a material impact on our revenues over the coming quarters, namely 1) Hesperco™, a bioflavonoid used to support the immune system. and 2) Redesca™, a LMWH biosimilar used for the treatment and prevention of blood clots, a $200 million market in Canada.

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.

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 (the "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 since 2015 the product and is recording sales on a gross basis since 2018.
Yondelis® *Trabectedin* (license)	Soft tissue sarcoma	PharmaMar S.A.	Commercial launch took place early Q4-20.
Ametop™ Gel	Anesthesia of the skin prior to venepuncture or venous cannulation	Alliance Pharma	Commercial launch took place late Q3-20.
Ondansetron ODT (License)	Prevention of nausea and vomiting caused by cancer chemotherapy	European Generic Mfg.	Commercially available in retail pharmacies across Canada since Q4-18.
Benztropine (Distribution)	Anticholinergic agent used for the treatment of PD	Asia/Pacific Generic Mfg.	Marketed 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	**Canada:** Marketed in Canada since Q3-18, hospital specialty distribution. **US:** Approved by FDA in June 2020. US sales are expected to commence in Q4-2020 via Valeo's US distribution partner.
HesperCo	Bioflavonoid antioxidant used for immune support.	Ingenew Pharma.	During Q3-20, the Corporation initiated the formulation development and manufacturing of Hesperco. The product is approved for commercialisation by HC and sales are expected to commence in October 2020.

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

Pre-launch / Regulatory Stage

Product	Indication	Partner	Regulatory, Commercial Status, and other important information
RedescaTM (Distribution Agreement)	Anticoagulant	Shenzhen Techdow Pharmaceuticals Co., Ltd.	HC approval expected in Q4-20. Redesca™ (LMWH) is an injectable anticoagulant biosimilar used to treat and prevent deep vein thrombosis and pulmonary embolism. The Canadian market for LMWH exceeds $200M on an annual basis (Source: IQVIA, 2019 LMWH market). Assuming approval, Redesca™ will be the fourth LMWH product and first biosimilar available in the Canadian market. Discussions to have Redesca™ included for provincial reimbursement across Canada have been initiated in mid-2020.
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.
Undisclosed Hospital Product #1	Injectable Antibiotic	Undisclosed	The Corporation has acquired the Canadian rights to this product not yet approved in Canada. The Product has been filed with HC with approval expected in Q1-21 with sales expected to commence mid-2021.
Undisclosed Hospital Product #2	Injectable Antifungal	Undisclosed	The Corporation has acquired the Canadian rights to this product not yet approved in Canada. The Product has been filed with HC with approval expected in Q1-21 with sales expected to commence mid-2021.
Undisclosed Hospital Product #3	Opioid dependence	Undisclosed partner	The Corporation has acquired the Canadian rights to an additional hospital product not yet approved in Canada. Regulatory filing will take place over the coming year but remains dependent on the availability of the information required for the respective filings. Marketing approval should follow within 12 months of each filing.

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 Q3-19. 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.

Q3-2020 FINANCIAL AND CORPORATE HIGHLIGHTS

Results Overview

During Q3-20 we have set the stage for exiting FY-20 as a profitable EBITDA company. We have continued to implemented initiatives with the goal to increase our revenues in the short and medium term, and to improve our sales product mix and the margins derived from the gross sales of our products. We have also taken proactive measures to streamline expenses where possible by terminating non-core contractual obligations without sacrificing our growth strategy.

In Q3-20, we have launched 1 new product (Ametop™) plus 2 more after the end of the quarter (Yondelis and Sodium Ethacrynate in the US).

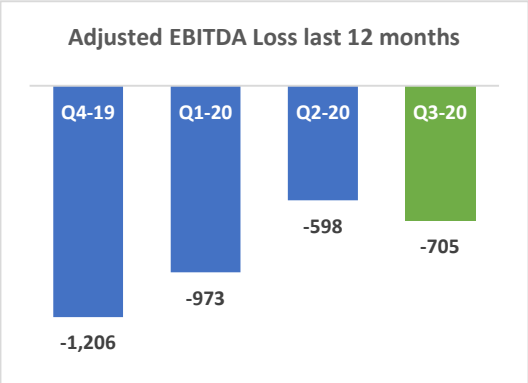
We have completed the formulation and manufacturing of Hesperco™ and secured Health Canada approval to prepare for the launch of this bioflavanoid during Q4-20 which we anticipate will have material impact on our financial performance. Finally, we kept interacting with regulatory authorities to support the ongoing review of products we plan to launch in the coming year, including Redesca™ our LMWH biosimilar.

Our Q3-20 results have been impacted by several non-recurrent costs and adjustments which have had a negative (one-time) impact during the quarter. Despite stable cost of sales to gross revenues ratio which is indicative of stable product mix, (see "Selected Quarterly Financial Information") these non-recurrent costs and adjustments have negatively impacted our net sales margins. Also, despite significant non-recurrent SG&A items (See "EBITDA & Adjusted EBITDA Reconciliation") we have managed to keep our total SG&A flat compared to prior period. These non-recurrent SG&A items include cost to secure our OTCQB listing in the US, non-recurrent investors relations expenses and material penalties for terminating a multi-year marketing agreement. This sets the stage to improved net margins going forward.

On the other hand, the comparable Q3-19 results were favourably impacted by the successful launch of Onstryv in July 2019, as well as reversal of important SG&A costs previously expensed which we capitalized during Q3-19 following a change in our policy for intangible assets. The combination of the positive impacts in Q3-19 and the negative non-recurrent cost and adjustments in Q3-20 resulted in important negative variances between the 2 quarters in terms of gross and net revenues, as well as gross margins, net loss and EBITDA.

For Q4-20 and beyond, with new products sequentially contributing to our topline, and the benefit of operational streamlining, we expect our key operational metrics (gross to net ratio, product mix and SG&A leverage) to improve, thus driving incremental gross and net margins and positioning Valeo to exit Q4-20 as a profitable EBITDA company.

In this MD&A, we have introduced several new Non-IFRS financial metrics which are meant to help better appreciate our progress. We have introduced a Gross revenues and Gross to net revenues ratio which help track the growth of our revenues and items impacting our net revenues. We have introduced a cost of sales to gross revenues which is a better indicator of our product mix performance. The total SG&A to Gross revenues will facilitate tracking our operational leverage. Finally, the Adjusted EBITDA reconciliation will become our key operational metric as it eliminates share-based compensation and the cost of financial instruments which we expect will be converted over the coming year. Adjusted EBITDA also helps eliminate non-recurrent items which impact our operational results and affects the reader's ability to track our performance. The following graph provides a better indication of our progress over the last 12 months after absorbing the cost of our expanded salesforce and Onstryv® launch in Q3-19.



Financial Results

Q3-20 vs Q3-19 Performance

- Gross revenues of $1,972 vs $2,831.
- Net Revenues of $1,490 vs $2,569.
- Net loss after taxes of $1,615 vs $92.
- EBITDA Loss at $1,271 vs $37
- Adjusted EBITDA Loss of $705 vs Adjusted EBITDA Profit of $74.

YTD-20 vs YTD-19

- Gross revenues down 4% at $6,213 vs $6,454.
- Net Revenues down 1% at $5,255 vs $5,321.
- Net loss after taxes of $3,585 vs $2,220.
- EBITDA Loss of $2,859 vs $2,067.
- Adjusted EBITDA Loss of $2,218 vs $1,839.

Products highlights

- 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. Commercialization of Yondelis started in August 2020.
- 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.
- July 13, 2020, the Corporation announced that it had received a Notice of Compliance from Health Canada authorizing the transfer of the Ametop™ commercial rights to Valeo. Valeo entered into a licensing agreement with Alliance Pharma plc in April 2020 for the exclusive commercialization rights to Ametop™ in Canada. Commercialization of Ametop™ started in late July 2020.

Financial and Corporate

- July 10, 2020, the Corporation announced the closing of a non-brokered oversubscribed $1.7 million private placement of non-convertible debenture units (the "Private Placement"). The Company issued 1,700 unsecured non-convertible debenture units (the "Debenture Units") at a purchase price of $1,000 per Debenture Unit for gross proceeds of $1,700,000. Each Unit consist of one 12% unsecured non-convertible debenture of the Company in the principal amount of $1,000 (each, a "Debenture") and 1,500 Class "A" share purchase warrants (each, a "Warrant") both maturing July 10, 2022 (the "Maturity Date"). Each Warrant entitles the holder thereof to purchase one Class "A" Share of the Company (each, a "Share") at an exercise price of $0.60 until the Maturity Date. In the event that the average VWAP of the Company's Shares (VPH:CSE) over any twenty (20) consecutive trading days is greater or equal to $1.10, the Company may give notice to the Warrant holder that it must exercise its remaining Warrants within a period of 30 days from the date of receipt of the notice, failing which the Warrants will automatically expire.
- July 29, 2020, the Corporation announced that it had completed and filed its application to list the Company's Class A shares ("Shares") on the OTCQB market in the United States.

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

Subsequent to the end of the quarter

- On August 11, 2020, the Corporation's shares were listed and commenced trading on the Frankfurt Stock Exchange under the symbol "FSE:VP2".
- On August 12, 2020, Valeo announced that it had commenced commercializing Yondelis® in Canada following the granting by Health Canada of a Notice of Compliance 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 September 3, 2020, the Corporation announced that it has received a Natural Product Licence approval from Health Canada authorizing the sale of its bioflavonoid formulation, Hesperco™, in Canada. Hesperco™ capsules contain a powerful antioxidant that can be taken for immune system support.
- September 10, 2020, the Corporation announced that it has closed a bought deal offering of 5,000,000 units (the "Units") at a price of $1.20 per Unit (the "Unit Price") along with the exercise in full of the Underwriters' over-allotment option of 750,000 additional Units at the Unit Price for aggregate gross proceeds of $6.9 million (the "Offering"). The Units were sold on a bought deal basis pursuant to an underwriting agreement dated August 26, 2020 with a syndicate of underwriters led by Stifel GMP and including Industrial Alliance Securities Inc., Desjardins Securities Inc. and Mackie Research Capital Corporation. Each Unit consists of one common share ("Share") of the Company and one-half of one Share purchase warrant (each whole warrant, a "Unit Warrant"), with each Unit Warrant entitling the holder to purchase one Share of the Company at a price of $1.50 for a period of 24 months after the closing of the Offering and subject to accelerated expiry if the closing price of the Company's Shares on the Canadian Securities Exchange is equal to or greater than $2.00 for a period of ten (10) consecutive trading days.
- On September 11, 2020, the warrants issued in connection with the Offering commenced trading on the CSE under the symbol "VPH.WT.A".
- On September 23, 2020, the Corporation announced that the Company was qualified to trade on the OTCQB market in the United States. Valeo's shares have started trading on the OTCQB under the symbol "VPHIF".

SELECTED FINANCIAL DATA

The following table sets forth financial information relating to the periods indicated and should be read in conjunction with the July 31, 2020 unaudited consolidated financial statements. The table also includes ratios and analyses to better explain variances between periods.

Consolidated Statements of Loss

	Q3-20	Q3-19	*Change*		YTD-20	YTD-19	*Change*	
	$	$	*$[1]*	*%[2]*	**$**	$	*$[1]*	*%[2]*
Gross Product Revenues	**1,972**	2,831	*(860)*	*-30%*	**6,213**	6,454	*(241)*	*-4%*
Adjustments/Deductions	**482**	262	*220*	*84%*	**958**	1,133	*(175)*	*-15%*
Net Product Revenues	**1,490**	2,569	*(1,079)*	*-42%*	**5,255**	5,321	*(66)*	*-1%*
Gross to net sales ratio	***76%***	*91%*	*-15%*		***85%***	*82%*	*3%*	
Cost of Sales	**1,363**	1,689	*(326)*	*-19%*	**4,311**	4,061	*250*	*6%*
Cost of Sales as % of Gross Revenues	***69%***	*60%*	*9%*	*17%*	***69%***	*63%*	*6%*	*10%*
Gross Margin	**127**	880	*(753)*	*-93%*	**944**	1,260	*(316)*	*-25%*
Gross Margin %	***9%***	*34%*	*-25%*		***18%***	*24%*	*-6%*	
Expenses								
S&M	**513**	335	*178*	*53%*	**1,649**	1,301	*348*	*27%*
G&A	**839**	548	*291*	*53%*	**2,341**	2,031	*309*	*15%*
Total SG&A	**1,352**	883	*469*	*53%*	**3,990**	3,332	*658*	*20%*
Total SG&A % (of gross revenues)	***69%***	*31%*	*38%*		***64%***	*52%*	*12%*	
SBC	**162**	111	*51*	*46%*	**237**	228	*9*	*4%*
Profit Sharing	**23**	-	*23*	*100%*	**26**	-	*26*	*100%*
Financial expense	**249**	42	*207*	*493%*	**441**	121	*320*	*264%*
Other income	**(44)**	(64)	*20*	*-31%*	**(165)**	(202)	*37*	*-18%*
Total Expenses	**1,742**	972	*770*	*79%*	**4,529**	3,480	*1,049*	*30%*
Loss before income taxes	**(1,615)**	(92)	*(1,523)*	*1655%*	**(3,585)**	(2,220)	*(1,365)*	*61%*
Recovery of income taxes								
Current	**-**	-	*-*	*0%*	**-**	-	*-*	*0%*
Net loss for the period	**(1,615)**	(92)	*(1,523)*	*1655%*	**(3,585)**	(2,220)	*(1,365)*	*61%*

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

Other comprehensive loss								
Exchange differences on translating foreign operations	**6**	-	*6*	*0%*	**(2)**	(3)	*1*	*-33%*
Defined benefit plan, net actuarial loss	**-**	-	-	*0%*	**(40)**	(70)	*30*	*-43%*
Total comprehensive loss	**(1,609)**	**(92)**	*(1,517)*	*1649%*	**(3,627)**	**(2,290)**	*(1,337)*	*58%*
Loss per share								
Basic and diluted	(0.03)	(0.00)	0.03	100%	(0.06)	(0.05)	0.01	20%
Weighted average number of shares outstanding	**56,833,233**	49,004,248	*7,828,985*	*16%*	**56,717,360**	47,205,699	*9,511,661*	*20%*

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 (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")

The following table provides a reconciliation of net loss to EBITDA(L) for Q3-20, and YTD-20 as compared to 2019 periods.

	Q3-20	Q3-19	*Change*		YTD-20	YTD-19	*Change*	
	$	$	*$[1]*	*%[2]*	**$**	$	*$[1]*	*%[2]*
Net Loss	**(1,615)**	(92)	*(1,589)*	*1727%*	**(3,585)**	(2,220)	*(1,365)*	*61%*
Adjustments								
Income Taxes	**-**	-	*-*	*0%*	**-**	-	*-*	*0%*
Interest Expense	**240**	29	*211*	*728%*	**416**	101	*315*	*312%*
Depreciation	**25**	10	*15*	*150%*	**75**	30	*45*	*150%*
Amortization	**79**	16	*63*	*394%*	**235**	22	*213*	*968%*
EBITDA Loss	**(1,271)**	(37)	*(1,234)*	*3335%*	**(2,859)**	(2,067)	*(792)*	*38%*
Other Adjustments								
Contractual Products returns/recalls [3]	**145**	-	*145*	*100%*	**145**	-	*145*	*100%*
Share-Based Compensation	**162**	111	*51*	*46%*	**237**	228	*9*	*4%*
Other warrants/ options costs	**167**	-	*167*	*100%*	**167**	-	*167*	*100%*
Exchange Listing fees [4]	**33**	-	*33*	*100%*	**33**	-	*33*	*100%*
Contract penalty for early termination	**59**	-	*59*	*100%*	**59**	-	*59*	*100%*
Adjusted EBITDA Loss	**(705)**	**74**	***(779)***	***1053%***	**(2,218)**	**(1,839)**	***(379)***	***21%***

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
3. Not in the normal course of business
4. Not related to share issuance

	Q3-20 vs Q3-19	YTD-20 vs YTD-19
Gross Revenues	• Gross revenues represent sales of products based on Valeo's listed price prior to taking into consideration any recurrent and non-recurrent price adjustments or other deductions. (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures") • Valeo's gross revenues are derived from the commercialization of 2 groups of products. The first group is comprised of "branded" prescription/OTC products such as Onstryv® and Redesca™ (HC approval pending) which contributes strong gross profit margins but require important 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 have commercialized since 2015 with nominal S&M efforts. In Q4-20, Valeo will be launching Hesperco™, a branded OTC products that can be detailed to retailers or sold via our transactional website. • Following the sale of our commercial portfolio in 2014, we have spent great efforts to re-build our product portfolio. Since FY-19, our portfolio of commercial products has been expanding rapidly with product launches sequentially impacting on our gross revenues and financial performance. We still have several products at various stages of pre-launch and regulatory development. We expect most of these products to start contributing to our revenues over the coming year. • Our Q3-20 and YTD-20 results are showing the impact of several new commercial stage products contributing to our gross revenues as compared to the prior year periods. Over the last 12 months, we successfully launched Onstryv®, in Q3-19 as well as Ondansetron ODT and Benztropine in Q4-19. Finally, during the last	

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

	weeks of Q3-20 we launched Ametop™ which will contribute for the full quarter in Q4-20 as well as Yondelis launched at the start of Q4-20. • Our gross revenues are indicative of gross sales volume prior to taking into account various adjustments and deductions. (See comments re Adjustments & Deductions below)	
	• Gross revenues for Q3-20 declined by 30% to $1,972 from $2,831 in Q3-19. The $860 variance can be attributed almost entirely to negative QoQ variance for M-Eslon and Onstryv®. • Annual YoY gross sales of M-Eslon have remained stable over the last few years but do vary significantly from quarter to quarter. While our YTD-20 gross sales of M-Eslon are on track compared to YTD-19 with a nominal 1% negative variance, gross sales of M-Eslon between Q3-19 and Q3-20 show an 11% or $223 decline. We expect FY-20 gross sales of M-Eslon to match FY-19. • The strong launch of Onstryv® in Q3-19 contributed to a significant growth of our revenues in Q3-19 compared to prior periods as a retailer purchased significant unit volumes. This successful launch led to lower sales in the subsequent quarters as retailers depleted the initial unit volume ordered at launch. While we continue to see steady upward demand for the product, the delays in securing provincial listing have impacted the net volume ordered. Onstryv® gross revenues for Q3-20 represented a negative $675 variance over Q3-19. We expect the product to be listed for reimbursement in Quebec in the coming months as well as a improving coverage from private payers. Both should drive market share gains going forward. • The Covid-19 pandemic has had a negative impact on our ability to promote Onstryv® directly to physicians and our sales growth has been impacted negatively during Q3-20. Face-to-face meetings with physicians have recently been permitted and we expect to see an acceleration of new and total number of patients using Onstryv® over the coming periods.	• YTD-20 gross revenues are slightly behind YTD-19 with a 4% negative variance or $241. The negative variance includes the impact of the reduced revenue contribution from Onstryv® which represented a negative YoY variance of $510. (See Q3-20 vs Q3-19 for more comments). • While YoY gross revenues of other products such as M-Eslon are stable, the negative variance from Onstryv®, was partly offset by the positive contribution of new products such as Ondansetron and benztropine which we launched in the last portion of the FY-19. • YTD-20 results also include a greater contribution for Sodium Ethacrynate as sales were driven by temporary product shortage experienced by competitors. • Finally, our gross revenue performance was negatively impacted by a $340 negative variance for Synacthen. Sales of Synacthen were $340 in YTD-19 compared to nil in YTD-20. Sales of the product stopped in Q1-19 due to a global supply shortage.
Sales Adjustments/ other Deductions ("SAD")	• Sales adjustments and other deductions to gross product revenues are either applicable to all products (early payment cash discounts, product returns), or represent specific deductions that impact individual product on a recurrent or non-recurrent basis. As an example – some of our products are subject to provincial PLAs or price adjustments while others not. For that reason, the mix of product sales will greatly influence our gross to net ratio and ultimately our profitability. • On average, the level of adjustments and other deductions to our sales should represents approximately 10-12% of our gross revenues. Due to PLAs arrangements and tender contracts with GPOs, gross revenues of both M-Eslon and Sodium Ethacrynate are subject to important price adjustments. Considering the level of SADs is dependent on product mix, we expect the total SADs as a % of gross revenues to trend downward overtime as new products less subject to SADs start contributing to our topline.	
	• SADs for Q3-19 were below historical levels, while the adjustments and deductions for Q3-20 were significantly higher than historical average and included several non-recurrent items. The combination of these 2 factors led to a 15% variance in our gross to net ratio (See "Gross to Net ratio" below). • The non-recurrent items that impacted our results in Q3-20 included 1) above average price adjustments for each of M-Eslon and Sodium Ethacrynate as well as a one-time product returns for Ontryv. Valeo implemented a national launch program with major retailers in Q3-19. As part of this program individual pharmacies opted to purchase products with a 12-month return policy for unsold units independent of global retail demand. While sales of	• SADs for YTD-20 were 15% lower than YTD-19 compared to 4% negative gross sales variance. The YTD adjustments and deductions included $425 worth of non-recurrent product returns for Synacthen in YTD-19 compared to nil in YTD-20. Before considering sales and deductions for Synacthen, other deductions in 2019 would have been in line with historical levels despite high adjustments and deductions in Q3-20. • YTD-20 adjustments include several non-recurrent adjustments that impacted mainly our Q3-20 results (See QoQ comments).

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	Onstryv® have continued to improve a monthly basis, we had to recognize $145 of net product returns for Q3-20. Following the termination of the 12-month return arrangement, continued monthly growth in scripts in most provinces, as well as the pending listing of Onstryv® on the Quebec formularies, we are confident to have net products revenues from this product to contribute significantly to our results over the coming quarters.	• We consider that both the YTD-19 and YTD-20 adjustments were above historical levels for reasons explained in the QoQ and YoY section.
Gross to Net ratio	• See ("Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures") for Gross to Net sales ratio definition. • Gross to net sales ratios is a key metric that enables management to assess the Corporation's sales performance including the profitability of our license and supply arrangements. • Gross to net ratio will vary from quarter to quarter but on average we expect our gross to net sales ratio to vary between 88-90% of gross revenues. The items impacting gross to net ratios are detailed in the sales adjustments and deductions section above. • See comments above for specific QoQ and YoY variance explanations.	
	• Our gross to net sales ratio for Q3-20 was significantly below historical levels at 76% vs our target (see above) due to several non-recurrent adjustments that took place during the quarter, while the gross to net ratio in Q3-19 was slightly above historical levels. See comments above.	• Both the 2019 and 2020 gross to net sales ratio were below historical levels at 82% and 85% respectively. The YTD-20 ratio was impacted by the Q3-20 non-recurrent adjustments (see QoQ section), while the YTD-19 ratio was impacted by the Synacthen product shortage. • Considering the non-recurrence nature of these adjustments we expect our gross to net sales ratio to trend upward going forward.
Net Product Revenues	• Similar to our gross revenues, our net revenues are trending upwards due to sequential addition of commercial stage products. Net revenues also reflect the impact of recurrent and non-recurrent adjustments and deductions. • After launching Ametop™ late in Q3-20, and Yondelis and Sodium Ethacrynate US since the start of Q4-20, we are now planning for the launch of 2 additional 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 both our gross and net revenue performance and contribute to making Valeo profitable in the first part of FY-21.	
	• Net revenues in Q3-20 decreased by $1,079 or 42% as compared to Q3-19. The Q3-20 revenues were impacted by significant non-recurrent adjustments and deductions to gross sales as well as a negative variance. Net Onstryv® revenues for Q3-20 were down $817 for the quarter as compared to the prior year quarter. • In addition to the negative variance for Ontryv, price adjustments mainly for M-Eslon and Sodium Ethacrynate represented 14% of gross sales as compared to 5% in Q3-19 representing a $120 difference. Price adjustments vary from quarter to quarter and the timing of such adjustments can have a material impact on our results. • Ametop™ was launched in the last week of the quarter and had a marginal impact on the results. Yondelis was launched during the month of August 2020. Both Ametop™ and Yondelis are expected to contribute to our results going forward.	• Net product revenues for YTD-20 were flat as compared to YTD-19 with a nominal 1% decrease. • Despite the YoY negative variance for Onstryv® and the negative $89 impact caused by the global supply shortage of Synacthen, YoY Net revenues have remained relatively stable, primarily due to the incremental revenue generated from late FY-19 product launches. • We anticipate more stable growth of Onstryv® units going forward as the initial pipeline fill has been exhausted.
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). • Direct Cost of Sales as a % of gross revenues varies significantly from product to product. Branded products or products owned by Valeo will have lower COGS % than hospital-based products we commercialize for our partners. Historically, the bulk of our product sales was derived from M-Eslon which is a low margin (high COGS) products for us. As the contribution of M-Eslon to our overall revenues decreases over time from the addition of new products, we anticipate our COGS ratio to range between 40-60% on a quarterly basis.	

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	• The impact of the amortization of product rights was $50 and $150 in Q3-20 and YTD-20 compared to nil for each of the Q3-19 and YTD-19 periods.	
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. • See comments above regarding current and projected COGS ratios per products which will drive our gross margins performance going forward.	
	• Our Gross margin for Q3-20 was impacted by significant non-recurrent SADs which were not offset by our product mix. Gross margin for the quarter was $127 as compared to $880 for Q3-19 representing a $753 negative variance. The decrease was driven by lower M-Eslon and Onstryv sales which, together, represented a $714 QoQ negative variance. Gross margin was further negatively impacted by price adjustments on Sodium Ethacrynate and M-Eslon, partially offset by incremental sales of Benztropine and Ondansetron which launched in Q4-19. Finally, returns of Synacthen in Q3-19 resulted in a positive variance in Q3-20.	• YTD gross margin decreased by 25% or $316. As explained above, our YoY revenues and product mix performance was negatively impacted by the variability of M-Eslon quarterly sales, and the strong pipeline fill for Onstryv® in 2019. When combined with large non-recurrent adjustments and deductions, this led to a negative gross margin variance. • The launch of Ondansetron, Benztropine and stronger contribution from Sodium Ethacrynate mitigated the negative impact of the M-Eslon and Onstryv® YoY performance. • As explained above, we expect our gross margin to trend upward going forward.
S&M expenses	• As indicated earlier, 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 increase as we expand our sales force to support the launch of Branded products but should not fluctuate 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 53% in Q3-20 as compared to Q3-19. The $178 increase represents the full impact of carrying the neurology salesforce in Q3-20 as compared to Q3-19.	• YTD-20 S&M expenses have increased by $348 or 27% 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.
G&A expenses	• Valeo's G&A expenses consist primarily of the staff costs for our non-S&M management team. These costs include staff costs for administration, finance and accounting, business development, legal, regulatory, quality control, pharmaco-vigilance and supply chain personnel. • G&A expenses also include IR expenses which can vary significantly between quarters as the Company implements various IR initiatives. • Other than for IR spending, 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 Q3-19.	
	• G&A expenses have increased by 53% between Q3-19 and Q3-20. The $291 increase can be attributed almost entirely to IR activities which include $210 of non-recurrent items in Q3-20. These items include the costs of issuing warrants and options to consultants and the cost for listing our shares on the US OTCQB market. IR costs were also increased to facilitate our financing activities which led to 2 successful financing ($1.7 non-brokered non-convertible debenture offering in July 2020 and the $6.9M Unit offering closed in September 2020. • Increases in IR spending was partly offset by cost control initiatives including some measures implemented to protect Valeo from possible commercial impact of the COVID-19.	• G&A expenses increased by 15% between the YTD-19 and YTD-20 periods. This represents a $309 increase which resulted from the $291 increase in the Q3 QoQ variation. (See Q3-19 vs Q3-20 for more comments.
Total SG&A % (of gross revenues)	• Total SG&A is a good metric to assess our performance in leveraging our infrastructure. As we add more products to our commercial portfolio, we expect our total SG&A as a % of gross revenues to drop significantly over time. • Unlike most other Canadian specialty pharmaceutical companies, Valeo prides itself for having the full infrastructure to manage all activities required to support the commercialization of its pipeline. This	

	infrastructure includes significant fixed costs but will provide material savings overtime as our revenues scale up.	
	• The SG&A to Gross sales ratio was 69% for Q3-20 compared to 31% for Q2-19. The SG&A % was high for Q3-20 due to the large non-recurrent IR charges describes above, while the SG&A% for Q3-19 was lower than average due to the capitalization of filing costs incurred in prior quarters, as the company changed its policy for capitalizing its intangible assets.	• Similar to the QoQ review, the YoY variance was mainly due to non-recurrent IR costs incurred in Q3-20. The change in policy for intangible did not impact the YTD-19 numbers as the Q3-19 adjustments were to adjust for YTD-19 items.
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.	
	• The Corporation granted 1,555,000 options during the quarter which led a $51 variance compared to last year.	• The variance was nominal for the YTD-19 vs YTD-20 periods at 4%.
Profit Sharing	• Profit sharing arrangement represents agreement with our partners to share net contribution from the sale of products. These arrangements led to lower transfer prices for the products (COGS) and help take into account the S&M costs for supporting the commercialization of these products. • We implemented our first profit sharing arrangement during the year which explains the nil amounts in FY-19	
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 and bank fees.	
	• Our financial expenses have increased $249 between Q3-19 and Q3-20 as a result of the 2 debenture financings secured in Q2-20 and Q3-20 for $2.2M and $1.7M respectively, and other borrowing costs. Other borrowing cost includes the use of our line of credit, as well as arrangements with some of suppliers offering flexible repayment terms in exchange for charging interest on the outstanding balances. The variance between the 2 periods also includes $9 of lease interest representing the impact of the IFRS 16 Lease accounting policy effective since November 1, 2019.	• The $320 increase between FY-19 and FY-20 includes $174 increase for debentures outstanding, $51 for loans converted into the for the increased February Convertible debenture financing, $41 for use of our operating line of credit between the 2 periods as well as $30 for lease interest representing the impact of the IFRS 16 Lease accounting policy effective since November 1, 2019. The variance also included $132 of other interest for arrangements with suppliers offering flexible repayment terms. Those other interest will be eliminated as the Company settles the amounts outstanding.
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	• Our net loss for Q3-20 was marked by high level of adjustments and other sales deductions, non-recurrent items described in the SG&A section, and above average SBC and financial expenses. While Q3-19 was marked by strong sales and margins following the successful launch of Ontryv® coupled with low SG&A expenses driven by the one-time reversal of expenses capitalized to intangibles. All of which led to a negative quarterly variance of $1,523.	• YTD-20 Net loss was $1,365 higher than for the FY-19 period. The variance is explained by $1,523 negative variance in Q3-20. (See Q3-19 vs Q3-20 comments). Our FY-20 results also show the full impact of adding our Onstryv® salesforce mid-way through FY-19 vs a partial impact in the prior year as well as the incremental financial charges in FY-20.
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 "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")	
	• EBITDA loss increased significantly in Q3-20 compared to Q3-19. See "Net loss" section. • However, considering the significant impact of non-recurrent items, we believed that our Adjusted EBITDA is a better indicator of our performance and progress compared to prior months – See below.	• Our EBITDA loss for YTD-20 increase 38% compared to YTD-19. The $792 increase over the 2 periods is explained by the Q3-20 vs Q3-19 performance.
Adjusted EBITDA (L)	• (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")	
	• Our Adjusted EBITDA between Q3-19 and Q3-20 declined by $779 from a positive $74 performance in Q3-19 to an EBITDA loss of $705 in Q3-20.	• Our Adjusted EBITDA Loss increased by $379 between FY-19 and FY-20. After Eliminating the non-recurrent adjustments, the main reason for the increase between the two

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	• As explained earlier the performance in 2019 was greatly influenced by the one-time highly favorable contribution resulting from the launch of Onstryv® in July 2019. Our Q3-20 performance is more indicative of our current performance which has been trending favorably over the last year. See "Selected Quarterly Financial Performance".	periods is the full impact of the increased salesforce in 2020 as compared to only a few months in the YTD-19.

Consolidated Balance Sheet Highlights

As at,	**Selected Pro-Forma 31-Jul-20** [1]	**31-Jul-20**	31-Oct-19	Change	
	$	**$**	$	*$*[2]	*%*[3]
Cash and liquidities	5,066	**68**	335	(267)	-80%
Trade and other receivables	1,004	**1,004**	613	391	64%
Inventory	629	**629**	561	68	12%
Total current assets	6,903	**1,905**	1,651	254	15%
Intangible assets	4,621	**4,621**	3,860	761	100%
Total assets	12,097	**7,097**	5,807	1,290	22%
Bank overdraft and operating loan	-	**960**	-	960	100%
Trade accounts payable	3,526	**3,526**	3,838	(312)	-8%
Promissory note	-	**198**	-	198	100%
Total current liabilities	4,494	**5,652**	4,477	1,075	24%
Long-term loans	-	**-**	1,001	1,001	-100%
Convertible debentures	1,496	**1,496**	-	1,496	100%
Non-Convertible debentures	1,451	**1,451**	**-**	1,451	100%
Total liabilities	8,060	**9,218**	5,829	3,389	58%
Share capital	15,528[4]	**9,371**	8,829	542	6%
Warrants	880[4]	**880**	598	282	47%
Contributed surplus	1,001	**1,001**	592	409	69%
Deficit	(13,301)	**(13,301)**	(9,716)	(3,585)	37%

1. Pro-Forma July 31, 2020 figures incorporate the net impact of the Unit Offering – See Subsequent Events" note.
2. A positive variance represents a positive impact the balance sheet and a negative variance represents a negative impact to the balance sheet
3. Percentage change is presented in relative values
4. Accounting treatment of warrants issued subsequent to the end of Q3-20 have not been performed.

	Q3-20 vs YE-19
Cash and liquidities	• When using our operating loan, our cash position represents the daily balance not yet applied against our line of credit. At YE-19 we were not using our operating loan and our cash balance stood at $335 as compared to a net use of our operating line of credit of $892 as the end of Q3-20 ($960 operating loan less cash balances of $68). • After considering the use of the operating line our net cash variance for the period was 1,227 representing $960 use of our line of credit and $227 reduction of or cash balance.
Adjusted Cash (After giving effect to the Unit Offering)	• Adjusted Cash (after giving effect to Unit Offering – See "Subsequent Events" note) is more indicative of our cash situation as of the date of this MD&A. Financing initiatives initiated prior to the end of the period have led to securing $6,156 worth of net proceeds from a Unit Offering closed on September 10, 2020 representing gross proceeds of $6,900 net of fees and expenses. Such financings must be considered when assessing our ability to meet our operational and financial obligations as we continue to implement our growth initiatives including the launch of several new products. On closing, the net proceeds from the Unit Offering were used to repay the operating line of credit for $960, settle the promissory note for $198, with the balance to be used for working capital purposes. • After giving effect to the above, our adjusted cash balance stood at $5,066 as compared to $335 at YE-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. • Payment terms for our VPI division (Hospital Specialty Products) are slightly longer and match the industry standard for such products. As sales of these products increase as a % of total revenues, the aging of our trade receivable will increase.

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	• Trade and other receivables have increased between YE-19 and Q3-20 with a $391 or 64% favourable 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 quarters and translated into stronger monthly sales in Q3-20 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 Q3-20 included 5 commercial products. The 12% increase between YE-19 and Q3-20 results from new inventory purchases to support the growth of our sales going forward including the addition of Ametop Gel units launched prior to the end of Q3-20. • Over the coming quarters, we are expecting our inventory levels to grow steadily as we add more products to our commercial portfolio.
Total current assets	• Current assets have increased $254 or 15% between the 2 periods mainly as a result of increases in our trade receivables and inventory, which were slightly offset by the reduction in our cash balance. • After giving effect to the Unit offering, our current assets at teh end of Q3-20 would be $6,903.
Intangibles assets	• Intangible assets represent investments made in order to build our product pipeline. For assets owned by Valeo, such as Sodium Ethacrynate and Redesca, these assets include formulation, R&D costs, regulatory and filings expenses. 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. • Over the period between YE-19 and Q3-20 we have added $996 to our intangible assets, representing the license fees to acquire Yondelis and submission costs and fees for Yondelis, Ametop, sodium Ethacrynate (US), Redesca, Hesperco™ and other products. The YTD-20 additions were offset by $235 of amortization, $150 of which was applied to COGS, and $85 to G&A expenses.
Total assets	• Total assets have increase by 22% between YE-19 and Q3-20. The $1,290 increase results mainly from a $761 net increase in intangible assets, and the respective increases in our trade receivables and inventory, offset by the reduction in our cash balances.
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 and additional comments in the cash section above)
Accounts payables	• Our accounts payables have remained relatively flat between the two periods with a nominal 7% decrease between Q3-19 and Q3-20. 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 Q3-20 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 $2,036 ($1,773 at YE-19) for a single supplier who provides extended terms to correlate our collections. After deducting these 2 suppliers, our trade payable position was $874 as at the end of Q3-20 as compared to $1,065 at YE-19. • The proceeds from the Unit Offering (See "Subsequent Events") will serve to reduce our trade payables.
Total current liabilities	• Our total current liabilities have increased by $1,075 between YE-19 and Q3-20 reflecting the use of our operating line of credit for $960 as well as the addition of a $198 promissory secured in July 2020 but repaid from the proceeds of the Unit Offering. (See "Adjusted Cash" above)
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 Q3-20. (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. • During Q3-20 a total of $405 of these debentures plus accrued interest of $18 were converted in common shares.
Non-Convertible debentures	• During Q3-20, the Corporation secured $1,700 worth of non-convertible debentures to fund its operations as well as working capital requirements to support the launch of new products. The net amount includes

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	deductions for the fair value allocation to the warrants attached to the debentures as well as transactions costs.
Total liabilities	• Th $3,389 increase combines the increase in short term liabilities for $1,075, the addition of convertible and non-convertible debentures less the conversion of term loans as well as $309 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. On a pro-forma basis, the share capital section will reflect the net impact from the $6.9 million Unit Offering.
Warrants	• The variance reflects the costs of issuing warrants less the value of warrants converted. During the year, the Corporation issued warrants as part of the Non-Convertible financing as well as from the exercise of brokers units from prior financings, and as compensation to consultants performing corporate branding and marketing services.
Contributed Surplus	• $409 increase relates to compensation options and stock-based compensation charged since the start of the FY-20 as well as the cost for issuing options in exchange for IR services in Q3-20.
Deficit	• Increase reflects the performance of the Corporation during the year – Statement of Loss

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3-20	**Q2-20**	**Q1-20**	**Q4-19**	**Q3-19**	**Q2-19**	**Q1-19**	**Q4-18**
	$	$		$	**$**	$	$	$
Gross Revenues	**1,972**	2,322	1,920	1,642	**2,831**	1,618	1,962	2,031
Adjustments/Deductions	**482**	241	236	380	**262**	637	191	281
Net Revenues	**1,490**	2,081	1,684	1,262	**2,569**	981	1,771	1,750
Gross to net sales ratio	***76%***	*90%*	*88%*	*77%*	***91%***	*61%*	*90%*	*87%*
Cost of Sales	**1,363**	1,586	1,362	1,115	**1,689**	863	1,509	1,604
Cost of Sales as % of Gross Revenues	***69%***	*68%*	*71%*	*68%*	***69%***	*53%*	*77%*	*79%*
Gross Margin	**127**	495	322	141	**880**	118	262	146
Gross Margin % to net sales	***9%***	*24%*	*19%*	*11%*	***34%***	*12%*	*15%*	*8%*
Expenses								
Sales and Marketing	**513**	516	620	709	**335**	441	527	197
General and Administrative	**839**	721	781	771	**548**	775	708	816
Total S&M + G&A	**1,352**	1,237	1,401	1,480	**883**	1,215	1,235	1,013
Total S&M & G&A % (of gross revenues)	***69%***	*53%*	*73%*	*90%*	***31%***	*75%*	*63%*	*50%*
Share Based Compensation	**162**	42	33	97	**111**	84	33	71
Profit Sharing	**23**	3	-	-	**-**	-	-	-
Financial expense	**249**	128	64	10	**42**	31	48	46
Other income	**(44)**	(53)	(68)	(51)	**(64)**	(73)	(65)	(60)
Impairment of investment	**-**	-	-	-	**-**	-	-	5
Total Expenses	**1,742**	1,357	1,430	1,536	**972**	1,258	1,251	1,075
Loss before income taxes	**(1,615)**	(862)	(1,108)	(1,395)	**(92)**	(1,140)	(989)	(929)
Recovery of income taxes								
Current	**-**	-	-	-	**-**	-	-	-
Net loss for the year	**(1,615)**	(862)	(1,108)	(1,395)	**(92)**	(1,140)	(989)	(929)
EBITDA(L)	**(1,271)**	(640)	(1,006)	(1,303)	**(37)**	(1,098)	(932)	(883)
Adjusted EBITDA (L)	**(705)**	(598)	(973)	(1,206)	**74**	(1,014)	(899)	(812)

(See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")

Notes	**Valuable information**
Gross revenues	• Our gross revenues have decreased by 18% in Q3-20 compared to the prior quarter Q2-20 but up over Q1-20 and Q4-19. Our Gross revenues do vary from quarter to quarter and despite the contribution of new products the Q3-20 numbers were impacted by a softer quarter from M-Eslon which continues to represent the bulk of our sales at 88% of gross revenues in Q3-20. • The launch of several new products such as Ametop late in Q3-20, Yondelis and Sodium Ethacrynate in the US, as well as Hesperco in Q4-20 are expected to have a great impact on our results and drive added profitability.

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

	• Looking ahead into FY-21, we are planning for the launch of Redesca (pending HC approval) as well as 3 other products that are currently in pre-launch/regulatory stage. The launch of all these products combined with the launch of 4 products in the last months of FY-20 is expected to more than double our quarterly sales from our current levels.
Adjustments and Deductions to sales (SADs) & Gross to net sales ratio	• As indicated in the Q3-20 QoQ analysis, the SADs were above average for the quarter leading to a gross to net ratio of 76%. These adjustments do vary from quarter to quarter but the review of the last 8 quarters shows the impact of non-recurrent adjustments on our net sales. In Q2-19 our gross revenues were impacted by the large amount of product returns that took place when we stopped selling Synacthen due to a global shortage of the product. In Q3-20, the results were impacted by $145 worth of Onstryv® returns that were linked to a one-time contractual arrangement with a retailer and significant price adjustments on M-Eslon and Sodium Ethacrynate. Going forward we target gross to net ratios to trend in the 88-90% range.
Total Revenues	• After netting the sales adjustments and deductions from our gross sales, our net sales were down 28% compared to the prior quarter. • Sales of Sodium Ethacrynate to hospitals take place under tender programs with GPOs (Group Purchasing Organisation). Sales were very strong in Q2-20 as Valeo filled-in as replacement for a large tender contract as a competitor experienced a temporary out-of stock situation. The out of stock situation was fixed during Q2-20 and sales of Sodium Ethacrynate for Q3-20 dropped back to prior quarterly level. Going forward sales of this product will remain highly variable and based on tender business activity. • 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 quarters that followed the launch, we expect re-ordering to increase 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 Covid-19 pandemic did impact our ability to accelerate our sales initiatives, but we believe that Onstryv® demand will continue to trend upward from here. • The launch of Ondansetron and Benztropine took place late in FY-19. Gross Revenues from these two products should continue to trend upward.
Cost of Sales and Gross Margin	• Fluctuates with total revenues as well as the mix of product sold. • Cost of sales to gross revenues has been stable in Q3-20 compared to prior quarter but the reduced net sales combined with above average sales adjustments and deductions materially impacted our gross margin which fell to 9% of net sales at $127. • The prior quarter performance clearly shows the strong impact of new product sales on our gross margins. As M-Elson continues to represent the bulk of our revenues, the change in product mix will push our margins up. The strong revenue contribution of recently launched products with more favorable gross margins has led to a strong 34% gross margin in Q3-19, and 24% in Q2-20. Our margins are expected to accelerate starting in Q4-20, as sales of new product continues to pick up and favourably impact our product mix. • Except for M-Eslon, all our products are expected to generate sales margins of 50-80%. With continued progress from Onstryv® and other products in our commercial pipeline, including four products launched in the last months of FY-20, plus 4 more launching in FY-21, we expect the relative proportion of M-Eslon sales to total sales to represent less than 25% a year from now, as compared to 88% for the last quarter. • 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.
S&M expenses	• S&M expenses have remained stable over the recent quarters • 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. • 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. • Except for Resdesca which will require S&M support, most products recently launched or to be launched over the next year will not add material S&M expenses to our current level.
G&A expenses	• G&A expenses in Q3-20 were $839 representing a $185 increase compared to Q2-20. This increase resulted from the non-recurrent increase in IR activities which jumped by $288 in Q3-20 compared to Q2-20. IR activities included $167 for warrants and options issued to non-employees performing corporate branding and IR activities. • Other than IR expenses, most G&A expenses represent rent and salaries. We expect G&A expenses to come back to pre-Q3-20 levels going forward as the company's administrative infrastructure can support significant growth with nominal staff additions.
Combined SG&A, and	• Despite the large non-recurrent IR expenses in Q3-20, our Q3-20 SG&A were relatively stable compared to prior quarters post the addition of our expanded salesforce in Q2-19.

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

SG&A % to gross revenues	• The low SG&A in Q3-19 was marked by adjustments to our capitalization policy for products at regulatory and pre-launch stage. This led to some material YTD-19 S&M expenses to be capitalized in Q3-19. • We foresee total SG&A (S&M and S&G expenses) to be relatively stable over the near future despite the addition of several new products. (See "S&M and G&A 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. The issuance of a large number of options to staff in Q3-20 impacted the SBC expenses for the quarter.
Profit Sharing	• Starting Q2-20 the company started accruing and paying amounts under profit-sharing arrangements. Such arrangements are meant to reduce the transfer price to be paid by Valeo and have the licensee and licensor share the commercial success of the products.
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 in February and March 2020, as well as non-convertible debentures in July as well as the increased use of our operating line of credit and arrangements with a few suppliers has led to a sequential quarterly increase in our financial expense since the start of FY-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. • Following our two recent financings ($1.7M in July 2020, and $6.9M in September 2020 – See subsequent events), we do not foresee using our line of credit over the coming quarters. We have also used the proceeds from the financing to settle the balance owed to a supplier that was charging interest against flexible terms of payments. The combined effect of this will help mitigate the increased interest to be paid on the debenture outstanding.
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	• Our net loss for the quarter has been impacted by a series of non-recurrent items discussed above as well as well as the incremental interest charges due to our debenture financing. This led our net loss in Q3-20 to increase 87% over the prior quarter. • We believe that until the conversion/reimbursement of our debentures, that the EBITDA and Adjusted EBITDA metrics to be more representative of our quarterly performance and progress as we continue to implement initiatives to exit FY-20 as a profitable EBITDA company. (See EBITDA and Adjusted EBITDA below.) • Except for Q3-20 discussed above, and 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 despite the addition of staff and expenses to support the Company's growth initiatives. • 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 significantly over the coming quarters as we add revenues from the launch of new products and secure incremental market share for products already on the market.
EBITDA (L)	• EBITDA Loss (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures") eliminates the impact of the CDU, ITC and other financings which reflect the Corporation's financing strategy adopted to attract the required capital to fund its operations. • 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, as well as the product mix, the large non-recurrent expenses – See Adjusted EBITDA. • We still expect to exit FY-20 as a positive EBITDA company. We expect the margin contribution of new products launched in the last few months and from those to be launched next year, most of which will contribute favorable margins while requiring nominal additional SG&A (except for Redesca) to have transformational impact on our profitability.
Adjusted EBITDA (L)	• Our Adjusted EBITDA is a much better indicator of our progress over the last year. Our Adjusted EBITDA loss has increased slightly from Q2-20 to Q3-20 to $705 representing an 18% increase but was still significantly down from prior quarter quarters. • Similar to our net loss and EBITDA, our Adjusted EBITDA will trend upward over the coming quarters as new products contribute to our revenues and gross margins. Most of the new products recently added and to be added in the coming year (except for Redesca) will require nominal SG&A. We expect a large portion of the additional gross margins to translate into incremental net margins, hence contributing to eliminate our Adjusted EBITDA loss.

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

LIQUIDITIES AND CAPITAL RESSOURCES

	For the nine months ended		Change	
	31-Jul-20	**31-Jul-19**	*$[1]*	*%[2]*
Net loss from operations	**(3,585)**	(2,220)	*(1,365)*	*61%*
Other Items not affecting cash	**1,006**	554	*452*	*82%*
Changes in non-cash working capital	**(792)**	(459)	*(333)*	*73%*
Cash used in operations	**(3,371)**	(2,125)	*(1,246)*	*59%*
Investing activities				
Cash (used) provided by investing activities	**(956)**	(714)	*(242)*	*34%*
Financing Activities				
Cash provided by financing activities	**4,064**	2,827	*1,237*	*44%*
Foreign exchange loss (gain) on cash	**(4)**	1	*(5)*	*500%*
Increase (decrease) in cash	**(267)**	(11)	*(256)*	*2327%*
Cash, beginning of the period	**335**	11	*324*	*2945%*
Cash, end of period	**68**	**-**	*68*	*100%*
Additional Information				
Adjusted Cash, End [(3)]	**5,066**	**-**	*5,066*	*100%*

1. A positive variance represents a positive impact on net cash flows and a negative variance represents a negative impact on net cash flows
2. Percentage change is presented in relative values
3. Adjusted Cash, includes the net impact of the Unit Offering - See "Subsequent Event".

	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 $3,585 in YTD-20 compared to $2,220 for the YTD-19 representing a 61% increase. (See Consolidated Statement of Loss discussion) • Other items not affecting cash have increased by 82% to $1,006 for YTD-20 compared to $554 for YTD-19. This variance is mainly due to the increase in amortization and depreciation charges between the 2 periods, share-based compensation, interest accrued on debentures, and consulting fees paid by way of issuance of warrants and options. • Changes in non-cash working capital components used $792 of cash in Q3-20 compared to $459 of cash in Q3-19 for a net $333 difference. The strong increase in our receivable as well as reduction in our trade payable led to the negative change in non-cash working capital
Cash used in investing activities	• Cash used by investing activities to acquire intangible assets during the period was $956 in YTD-20 as compared to $714 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 $4,064 mainly via the use of our operating line of credit for $960 and the addition of convertible debentures for $1,111 and non-convertible debentures for $1,700. Compared to $2,827 in YTD-19 driven by $900 of new debentures which were converted upon the listing of the Corporation's shares on the CSE in February 2020 and $3.1 million from the issuance of units, less the repayment of our operating loan for $850 and units and share issue costs.
Cash and Adjusted Cash, end of the period	• Cash at the period was $68 as at July 31, 2020 compared to nil as at July 2019. Cash uses for operations and investing activities were almost entirely met by new financings which led to a net use of cash of $267 for the first 9 months of 2020 as compared to a net use of cash of $11 for the prior year. • Despite limited cash resources we kept advancing on our growth objectives and the $6.9 Million Unit financing closed after the end of the period (See "Subsequent Events") demonstrates the market response to our progress and the anticipated growth ahead. • Taking into consideration the net impact of the Unit Financing after repayment of our outstanding line of credit and settlement of a promissory note, our adjusted cash position at the end of the period was $5,066 as opposed to $68.

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

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 July 31, 2020, the Company incurred a net loss of $3,585, used cash in operations of $3,371 and had a working capital deficiency of $3,747 at the end of the period. This raises significant doubt about the Company's ability to continue as a going concern. Subsequent to end of Q3-20, the Corporation was successful in securing $6.2 million of net proceeds through the issuance of units (see "Subsequent events").

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,	**31-Jul-20**	31-Oct-19	Change	
	$	$	*$*	*%[1]*
Cash	**68**	335	(267)	-80%
Trade and other receivables	**1,004**	613	391	64%
Inventory	**629**	561	68	12%
Trade accounts payables	**3,526**	3,838	(312)	-8%
Working Capital	**(3,747)**	(2,826)	*(921)*	*-33%*
Additional information [2,3]				
Adjusted Cash	**5,066**	335	*4,731*	*1412%*
Adjusted W/C	**2,409**	(2,826)	*5,235*	*185%*

1. Percentage change is presented in relative values
2. Working capital is a measure of current assets less current liabilities
3. Adjusted Cash and Adjusted Working Capital takes into account the net impact of the Unit Offering - See "Subsequent Event".

Adjusted Cash information is a better indication of our current liquidity situation as of the date of this MD&A. Since going public in February 2019, we had been carrying a negative working capital situation. Following a series of successful financing in FY-20 we have secured additional capital to strengthen our balance sheet and cash position. Taking into account the Unit Financing (See "Subsequent Event") our Adjusted cash position has increased significantly as at July 31, 2020 as compared to a year ago and our working capital has improved from a deficit of $2,826 to a surplus of $2,409. The proceeds from the recent financing will be used to reduce our trade payables and provide liquidities to 1) support working capital requirements necessary to support the launch of new products, and 2) fund the corporation until it generates positive cash flows from operations.

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. Going forward, Valeo intends to fund these in-licensing agreements with a combination of cash, cash from operations, equity provided by current and new shareholders, as well as convertible or non-convertible debt if required.

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 $10 million. The Corporation anticipates that the commencement of additional product distribution agreements and other

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

revenue contracts will provide significant incremental cash flow that will contribute to working capital requirements.

Also, the Corporation's recent initiatives related to product acquisition rights and regulatory filings have and will continue to drive a series of product launches over the coming quarters that will contribute meaningful incremental operating cash flows. In addition to the launch of Onstryv®, Ondansetron ODT and Benztropine in FY-19, the Corporation has recently launched Ametop, Yondelis and Sodium Ethacrynate via a US distributor. Valeo still plans to launch an additional product in FY-20, with Hesperco expected to be launched in the coming weeks. In FY-21 is expecting to launch four more products including the highly anticipated launch in Q1-21 of Redesca, the first LMWH biosimilar filed in Canada. Redesca is expected to 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		Nine months ended	
	July 31, 2020	July 31, 2019	**July 31, 2020**	July 31, 2019
Key management salary and benefits	**191**	224	**659**	622
Directors and employee stock option compensation	**162**	111	**237**	228
Consulting fee paid to a company controlled by an officer	**34**	29	**120**	135

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

	July 31, 2020	October 31, 2019
Compensation owed to a person who is an officer	**-**	30
Consulting fees owed to a company controlled by an officer	**22**	10
Expenses owed to a consultant and incurred in the normal course of business	**12**	1
Convertible debentures owed to key management and directors	**420**	-
Convertible debenture and promissory note owed to Manitex, a shareholder of the Corporation	**213**	-

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. 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 July 31, 2020 and October 31, 2019, a 5% increase/decrease in the USD/CDN or EUR/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.

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

	July 31, 2020		October 31, 2019	
	Foreign Currency	**CDN equivalent**	Foreign Currency	CDN equivalent
Cash – USD	**4**	**6**	4	5
Accounts payable and accrued liabilities – USD	**96**	**135**	147	193
Accounts payable and accrued liabilities – EUR	**5**	**9**	-	-
Accounts payable and accrued liabilities – AUD	**-**	**-**	44	40

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

(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 risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at July 31, 2020.

	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Bank indebtedness	-	-	960	-	**960**
Accounts payable and accrued liabilities	1,908	1,159	1,157	24	**4,248**
Provision for product returns	-	-	85	-	**85**
Convertible debentures	-	-	-	1,496	**1,496**
Non-convertible debentures	-	-	-	1,451	**1,451**
Accrued interest on debentures	85	4	12	-	**101**
Lease liability	5	10	46	248	**309**
	1,998	1,173	2,260	3,219	**8,650**

Liquidity available via the Corporation's operating activities, liquidities and credit facilities will provide the Corporation with the funds needed to meet its short-term financial obligations that are due as of July 31, 2020. New share or debenture issuance will also help the Corporation meet its obligations. (See "Subsequent Events").

(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 issuance of units, shares, 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 issuing shares or units, and if required by securing new debt from its existing shareholders and/or third party lenders. As at July 31, 2020 the Corporation is not subject to any externally imposed capital requirements.

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

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**

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.

Interim Condensed Consolidated Financial Statements (Unaudited)

Valeo Pharma Inc.

July 31, 2020
Third 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	July 31, 2020	October 31, 2019
ASSETS			
Current			
Cash		**68**	335
Trade and other receivables	*4*	**1,004**	613
Inventory		**629**	561
Prepaid expenses		**204**	142
Total current assets		**1,905**	1,651
Property and equipment	*5*	**276**	296
Right of use asset	*6*	**295**	-
Intangible assets	*7*	**4,621**	3,860
Total assets		**7,097**	5,807
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current			
Operating loan	*8*	**960**	-
Trade accounts payables	*9*	**3,526**	3,838
Other accounts payable and accrued liabilities	*9*	**722**	539
Accrued interest on debentures		**101**	-
Promissory note	*10*	**198**	-
Provision for product returns		**85**	100
Lease liability	*11*	**60**	-
Total current liabilities		**5,652**	4,477
Long-term loans	*12*	**-**	1,001
Convertible debentures	*13*	**1,496**	-
Non-convertible debenture	*14*	**1,451**	-
Lease liability	*11*	**249**	-
Defined benefit obligation		**370**	351
Total liabilities		**9,218**	5,829
SHAREHOLDERS' DEFICIT			
Share capital	*15*	**9,371**	8,829
Warrants	*15*	**880**	598
Equity component of convertible debenture	*13*	**296**	-
Contributed surplus		**1,001**	592
Deficit		**(13,301)**	(9,716)
Accumulated other comprehensive loss		**(368)**	(325)
Total shareholders' deficit		**(2,121)**	(22)
Total liabilities and shareholders' deficit		**7,097**	5,807

Going Concern (Note 1); Related Party Transactions (Note 21); Subsequent events (Note 24)

These unaudited condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on September 29, 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 nine months ended July 31,

		Three months ended,		Nine months ended,	
	Notes	**July 31, 2020**	July 31, 2019	**July 31, 2020**	July 31, 2019
Revenues		**1,490**	2,569	**5,255**	5,321
Cost of Goods Sold		**1,363**	1,689	**4,311**	4,061
Gross Profit		**127**	880	**944**	1,260
Expenses					
Sales and marketing	*17*	**513**	335	**1,649**	1,301
General and administrative	*18*	**839**	548	**2,341**	2,032
Share based compensation	*15*	**162**	111	**237**	228
Profit Sharing		**23**	-	**26**	-
Financial	*19*	**249**	42	**441**	121
Other income	*20*	**(44)**	(64)	**(165)**	(202)
Total Expenses		**1,742**	972	**4,529**	3,480
Net loss before income taxes		**(1,615)**	(92)	**(3,585)**	(2,220)
Provision for income taxes					
Current		**-**	-	**-**	-
Net loss for the period		**(1,615)**	(92)	**(3,585)**	(2,220)
Other comprehensive loss					
Exchange differences on translating foreign operations		**6**	-	**(2)**	-
Defined benefit plan, net actuarial (loss) gain		**-**	-	**(40)**	(70)
Total comprehensive loss		**(1,609)**	(92)	**(3,627)**	(2,290)
Loss per share:					
Basic and diluted		**(0.03)**	(0.00)	**(0.06)**	(0.05)
Weighted average number of shares outstanding		**56,833,233**	49,004,248	**56,717,360**	47,205,699

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 nine months ended July 31,

							Accumulated OCI			
	Notes	Common Shares $	Warrants $	Conversion option $	Deficit $	Contributed surplus $	Defined benefit plan $	Foreign exchange translation $	Total OCI $	Total $
Balance as at October 31, 2018		4,659	-	-	(6,101)	267	(159)	(33)	(192)	(1,367)
Net loss		-	-	-	(2,220)	-	-	-		(2,220)
Other Comprehensive loss				-	-	-	(71)	-	(71)	(71)
Share based compensation		-	-	-	-	228	-	-		228
Share issue costs		-	-	-	-	-	-	-		-
Conversion of debentures to shares		1,427	-	-	-	-	-	-		1,427
Conversion of loans to shares		815	167	-	-	-	-	-		982
Issuance of units		2,583	529	-	-	-	-	-		3,112
Unit issue costs		(729)	-	-	-	-	-	-		(729)
Balance as at July 31, 2019		8,755	696	-	(8,321)	495	(230)	(33)	(263)	(1,362)
Balance as at October 31, 2019		**8,829**	**598**	**-**	**(9,716)**	**592**	**(292)**	**(33)**	**(325)**	**(22)**
Net loss		**-**	**-**	**-**	**(3,585)**	**-**	**-**	**-**	**-**	**(3,585)**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**(40)**	**(3)**	**(43)**	**(43)**
Share based compensation	*15*	**-**	**-**	**-**	**-**	**237**	**-**	**-**	**-**	**237**
Exercise of stock options		**8**				**(1)**	**-**	**-**	**-**	**7**
Share issue costs		**(41)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(41)**
Compensation options		**(85)**	**-**	**-**	**-**	**102**	**-**	**-**	**-**	**17**
Compensation options exercised		**14**	**-**	**-**	**-**	**(5)**	**-**	**-**	**-**	**9**
Warrants issued		**-**	**196**	**-**	**-**	**-**	**-**	**-**	**-**	**196**
Warrants exercised		**217**	**(27)**	**-**	**-**	**-**	**-**	**-**	**-**	**190**
Consulting fees	*18*	**-**	**113**	**-**	**-**	**76**	**-**	**-**	**-**	**189**
Convertible debentures issued	*13*	**-**	**-**	**367**	**-**	**-**	**-**	**-**	**-**	**367**
Conversion of debentures to shares		**429**	**-**	**(71)**	**-**	**-**	**-**	**-**	**-**	**358**
Balance as at July 31, 2020		**9,371**	**880**	**296**	**(13,301)**	**1,001**	**(332)**	**(36)**	**(368)**	**(2,121)**

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

Valeo Pharma Inc.

Interim Condensed Consolidated Statements of Cash Flow
(Unaudited)

In thousands of Canadian dollars
For the nine-months ended July 31,

	Notes	**2020**	2019
Operating activities:			
Net loss from operations		**(3,585)**	(2,220)
Add (deduct) items not affecting cash:			
Depreciation of property and equipment and amortization of right of use asset		**75**	29
Amortization of intangible assets	*7*	**235**	22
Provision for sales returns		**78**	78
Share based compensation	*15*	**237**	228
Share issue costs		**-**	21
Interest expense		**211**	72
Consulting fees paid by issuance of warrants		**113**	-
Consulting fees paid by issuance of stock options		**76**	-
Unrealized (gain) loss on foreign exchange		**14**	102
Funding of defined benefit plan		**(33)**	5
Payment of interest on short term debt		**-**	(3)
Net change in non-cash operating working capital	*16*	**(792)**	(459)
Cash used by operations		**(3,371)**	(2,125)
Investing activities:			
Acquisition of property and equipment		**(3)**	(17)
Acquisition of intangible assets		**(953)**	(697)
Cash used by investing activities		**(956)**	(714)
Financing activities:			
Increase in bank overdraft		**-**	77
Increase (decrease) in operating loan		**960**	(850)
Increase in shareholder loans		**195**	-
Increase in convertible debentures		**1,111**	900
Increase in non-convertible debentures	*14*	**1,700**	-
Issuance of shares from exercise of warrants and options		**209**	-
Issuance of units		**-**	3,112
Payment of unit issue costs		**-**	(300)
Payment of share issue costs		**(42)**	(49)
Repayment of debt		**-**	(48)
Funding of defined benefit plan		**-**	(15)
Payment of lease costs	*11*	**(69)**	-
Cash provided (used) by financing activities		**4,064**	2,827
Foreign exchange loss on cash		**(4)**	1
Decrease in cash		**(267)**	(11)
Cash, beginning of period		**335**	11
Cash, end of period		**68**	-

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, VPH.WT and VPH.WT.A. The Corporation's shares are also listed on the Frankfurt Stock Exchange ("FSE") under the symbol VP2 and on the OTCQB market under the symbol VPHIF.

Statement of Compliance

These unaudited interim condensed consolidated financial statements of the Corporation have been prepared for the three and nine months ended July 31, 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 September 29, 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 July 31, 2020, the Company incurred a net loss of $3,585, used cash in operations of $3,371 and had a working capital deficiency of $3,747. This raises significant doubt about the Company's ability to continue as a going concern. Subsequent to quarter-end, the Corporation was successful in securing $6.2 million of net proceeds from additional capital raised through the issuance of units (see subsequent events, Note 24).

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 the Corporation 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 July 31st. All transactions and balances between Group companies are eliminated upon consolidation, including unrealized gains and losses on transactions between Group companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Corporation. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the 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 audited annual consolidated financial statements and are still applicable for the nine months ended July 31, 2020.

4. Trade and Other Receivables

	July 31, 2020	October 31, 2019
Trade receivables	**548**	381
Receivables from related party	**317**	105
Receivables from others	**95**	67
Sales taxes receivable	**44**	60
	1,004	613

(All amounts in thousands of Canadian dollars)

5. Property and equipment

	Leasehold improvements	Computer equipment	Equipment and furniture	Security Vault	Total
Cost as at October 31, 2019	110	284	182	196	772
Additions	-	2	1	-	3
Cost as at July 31, 2020	**110**	**286**	**183**	**196**	**775**
Accumulated depreciation as at October 31, 2019	80	233	125	38	476
Depreciation	3	11	4	5	23
Accumulated depreciation as at July 31, 2020	**83**	**244**	**129**	**43**	**499**
Net carrying value July 31, 2020	**27**	**42**	**54**	**153**	**276**

6. 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	-	(52)	(52)
Balance as at July 31, 2020	**347**	**(52)**	**295**

7. Intangible Assets

	Submission costs	License fee	Total
Balance as at October 31, 2019	1,880	1,980	3,860
Additions	632	364	996
Amortization	(85)	(150)	(235)
Balance as at July 31, 2020	**2,427**	**2,194**	**4,621**

8. 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.

9. Accounts Payable and Accrued Liabilities

	As at July 31, 2020	As at October 31, 2019
Trade accounts payable	**3,526**	3,838
Payables to related parties *(note 21)*	**34**	41
Other accounts payable and accrued liabilities	**688**	498
	4,248	4,377

(All amounts in thousands of Canadian dollars)

10. Promissory Note

	Interest rates	Maturity Date	As at July 31, 2020	As at October 31, 2019
Unsecured	12% per annum	Demand	**198**	-

Subsequent to quarter-end, the promissory note together with the accrued interest thereon was repaid in full. See Note 24.

11. 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	30
Lease payments	(69)
Balance as at July 31, 2020	**309**
Which consists of	
Current lease liability	60
Non-current lease liability	249

12. 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 July 31, 2020	As at October 31, 2019
Unsecured	12% per annum	February 27, 2022	**-**	1,001

Long-term loans, plus accrued interest of $39 were converted into convertible debentures on February 27, 2020.

13. Convertible Debentures

	Nine months ended July 31, 2020	Year ended October 31, 2019
Opening balance	**-**	507
Additions	**1,138**	900
Conversion of long-term loans	**1,040**	-
Fair value of conversion option allocated to equity	**(367)**	-
Transaction costs	**(19)**	-
Accretion expense	**48**	20
Conversion of convertible debentures into shares	**(344)**	(1,427)
	1,496	-

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 non-convertible 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 expense included in financing expense on the statement of loss and comprehensive loss, attributable to the debentures for the nine months ended July 31, 2020 was $48.

The debentures accrued interest of $108, included in financing expense on the statement of loss and accrued interest on the statement of financial position.

During the nine months ended July 31, 2020, $344 of convertible debentures together with accrued interest of $19, were converted into common shares of the corporation.

(All amounts in thousands of Canadian dollars)

13. Convertible Debentures – *cont'd*

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 18, 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.

14. Non-convertible Debenture

	Nine months ended July 31, 2020
Opening balance	**-**
Additions	**1,700**
Fair value of warrants allocated to equity	**(216)**
Transaction costs	**(39)**
Accretion expense	**6**
	1,451

On July 10, 2020, the Corporation issued 1,700 unsecured non-convertible debenture units (the "Debenture Units") at a purchase price of $1,000 per Debenture Unit for gross proceeds of $1,700,000. Each Unit consist of one 12% unsecured non-convertible debenture of the Company in the principal amount of $1,000 (each, a "Debenture") and 1,500 Class "A" share purchase warrants (each, a "Warrant") both maturing July 10, 2022 (the "Maturity Date"). Each Warrant entitles the holder thereof to purchase one Class "A" Share of the Company (each, a "Share") at an exercise price of $0.60 until the Maturity Date. In the event that the average VWAP of the Company's Shares (VPH:CSE) over any twenty (20) consecutive trading days is greater or equal to $1.10, the Company may give notice to the Warrant holder that it must exercise its remaining Warrants within a period of 30 days from the date of receipt of the notice, failing which the Warrants will automatically expire.

The Corporation valued the debt component of the non-convertible 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 non-convertible debenture without warrant coverage would bear as at July 10, 2020. On initial recognition, the liability components were $1,484, and the warrants were $216. Transaction costs of $39 were netted against the liability and will be amortized using the effective interest method over the period of the loan. A further $6 in transaction costs, related to the warrants, were capitalized to share issue costs.

Accretion expense included in financing expense on the statement of loss and comprehensive loss, attributable to the debentures for the nine months ended July 31, 2020 was $6. In addition, the debentures accrued interest of $12, included in financing expense on the statement of loss and accrued interest on the statement of financial position.

15. 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	$
Opening balance	56,659,423	8,829	44,903,008	4,659
Issuance of units	-	-	6,225,000	2,583
Share Issue costs	-	(126)	-	(162)
Exercise of stock options	12,500	8	-	-
Compensation options exercised	23,320	14	-	-
Exercise of warrants	317,200	217	-	-
Conversion of loan into shares	-	-	1,964,257	815
Conversion of debentures into shares (i)	1,058,566	429	3,567,158	1,427
Balance as at July 31,	**58,071,009**	**9,371**	56,659,423	8,755

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

(All amounts in thousands of Canadian dollars)

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

(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.

Changes in outstanding options during the period were as follows:

	Nine months ended, July 31, 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
Granted during the period	**1,800,000**	**$0.69**	1,422,222	$0.43
Cancelled during the period	**(75,000)**	**$0.47**	-	-
Forfeited during the period	**(112,500)**	**$0.50**	(150,000)	$0.40
Expired during the period	**(12,500)**	**$0.50**	(50,000)	$0.40
Options outstanding, end of period	**4,563,032**	**$0.51**	2,963,032	$0.40
Options exercisable, end of period	**1,889,421**	**$0.50**	1,309,509	$0.37

The following options were granted in the respective reporting periods:

For the nine months ended July 31, 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
1,305,000	(ii)	June 30, 2020	June 30, 2027	$0.60	$0.31
250,000	(iii)	June 30, 2020	June 30, 2027	$0.60	$0.31
200,000	(iv)	July 27, 2020	October 27, 2020	$1.50	$0.38
1,800,000					

(i) These options vest 25% at the date of the grant and then 25% on the first, second and third anniversary of the grant.
(ii) These options vest 50% on September 1, 2020 and 50% on September 1, 2021
(iii) These options vest 100% on September 1, 2020
(iv) These options vested 100% on July 27, 2020

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.

(All amounts in thousands of Canadian dollars)

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

The remaining contractual life for the share options outstanding as at July 31, 2020 are:

Number	Exercisable	Fair Value	Exercise price	Remaining contractual life
365,810	365,810	$0.14	$0.25	0.75
2,172,222	1,173,611	$0.10 - $0.40	$0.40	4.81
300,000	150,000	$0.01 - $0.45	$0.50	4.00
1,525,000	-	$0.31	$0.60	6.92
200,000	200,000	0.38	$1.50	0.24
4,563,032	**1,889,421**			

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

Risk-free interest rate	0.17% - 2.42%
Volatility factor	60% - 90%
Expected life	2.6 - 7 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 nine months ended July 31, 2020 was $237 (2019 - $228) recognized in contributed surplus.

(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	4,223,320	$0.59
Cancelled during the period	(150,000)	$0.60
Exercised	(317,200)	$0.60
Balance as at July 31, 2020	**11,945,377**	**$0.60**

As at July 31, 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
7,895,377	July 25, 2019	July 25, 2022	$0.60	$0.09	1.98
1,500,000	June 30, 2020	June 30, 2021	$0.60	$0.08	0.92
2,550,000	July 10, 2020	July 10, 2022	$0.60	$0.08	1.94
11,945,377					**1.84**

During the nine months ended July 31, 2020, a total of 4,223,320 warrants were issued. Of the warrants issued, 1,650,000 warrants were valued using the Black Scholes option pricing model with a risk-free rate of 0.41% - 1.63%; a volatility of 50% - 59%; an expected life of 1 - 2 years with a nil expected dividend and forfeiture rate. A further 2,550,000 warrants were issued in conjunction with the issuance of a non-convertible debenture. Their fair value was determined using the residual method, refer to Note 14. The balance of the warrants were issued on exercise of compensation options.

(All amounts in thousands of Canadian dollars)

16. Supplemental Cash Flow Information

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

	Nine months ended	
	July 31, 2020	July 31, 2019
Increase in trade receivables	**(404)**	(777)
Increase in prepaid expenses	**(62)**	(91)
Increase in inventory	**(68)**	(261)
Decrease (increase) in other receivables	**14**	(14)
(Decrease) increase in accounts payable and accrued liabilities	**(272)**	683
Decrease in income taxes	-	1
	(792)	(459)

17. Sales and Marketing Expenses

	Three months ended		Nine months ended	
	July 31, 2020	July 31, 2019	**July 31, 2020**	July 31, 2019
Sales expenses	**146**	172	**395**	387
Marketing expenses	**153**	(81)	**399**	418
Employee compensation	**214**	244	**855**	496
	513	335	**1,649**	1,301

18. General and Administrative Expenses

	Three months ended		Nine months ended	
	July 31, 2020	July 31, 2019	**July 31, 2020**	July 31, 2019
Depreciation of property and equipment	**7**	10	**23**	30
Depreciation of right of use asset	**18**	-	**52**	-
Amortization of intangible assets (*Note 6*)	**28**	7	**85**	13
Administrative expenses	**184**	267	**729**	919
Investor relations expenses [i]	**374**	47	**566**	69
Product development costs	**-**	(6)	**-**	8
Employee compensation	**228**	223	**886**	993
	839	548	**2,341**	2,032

[i] Investor relations expenses include warrants and options issued to consultants for $113 and $76, respectively.

19. Financial Expenses

	Three months ended		Nine months ended	
	July 31, 2020	July 31, 2019	**July 31, 2020**	July 31, 2019
Interest on long-term loans	**-**	18	**51**	53
Effective interest on debentures	**49**	**-**	**54**	-
Accrued interest on debentures	**75**	-	**120**	20
Lease interest	**9**	-	**30**	-
Other interest	**96**	-	**132**	-
Foreign exchange fluctuation	**6**	3	**13**	2
Credit facility costs and bank charges	**14**	21	**41**	46
	249	42	**441**	121

20. Other Income

	Three months ended		Nine months ended	
	July 31, 2020	July 31, 2019	**July 31, 2020**	July 31, 2019
Rental income	**6**	8	**20**	24
Service income	**38**	56	**145**	178
	44	64	**165**	202

(All amounts in thousands of Canadian dollars)

21. Related Party Transactions

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

	Three months ended		Nine months ended	
	July 31, 2020	July 31, 2019	**July 31, 2020**	July 31, 2019
Key management salary and benefits	**191**	224	**659**	622
Directors and employee stock option compensation	**162**	111	**237**	228
Consulting fee paid to a company controlled by an officer	**34**	29	**120**	135

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

	July 31, 2020	October 31, 2019
Compensation owed to a person who is an officer	**-**	30
Consulting fees owed to a company controlled by an officer	**22**	10
Expenses owed to a consultant and incurred in the normal course of business	**12**	1
Convertible debentures owed to key management and directors	**420**	-
Non-convertible debenture and promissory note owed to Manitex, a shareholder of the corporation	**213**	-

22. Financial Instruments

The tables below indicate the carrying values of assets and liabilities. As at July 31, 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.

July 31, 2020,	**Amortized cost**
Financial assets:	
Cash	**68**
Trade and other receivables	**1,004**
	1,072
Financial liabilities:	
Operating Loan	**960**
Demand promissory note	**198**
Accounts payable and accrued liabilities	**4,248**
Accrued interest on debentures	**101**
Lease liability	**309**
Convertible debenture	**1,496**
Non-convertible debenture	**1,451**
	8,751

October 31, 2019,	Amortized cost
Financial assets:	
Cash	335
Trade and other receivables	613
	948
Financial liabilities:	
Accounts payable and accrued liabilities	4,377
Long term loan	1,001
	5,378

(All amounts in thousands of Canadian dollars)

22. Financial Instruments – *cont'd*

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

The Corporation categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observation of the inputs used in the measurement. For the periods ended July 31, 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.

23. 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 July 31, 2020 and October 31, 2019, a 5% increase/decrease in the USD/CDN or EUR/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.

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

	July 31, 2020		October 31, 2019	
	Foreign Currency	**CDN equivalent**	Foreign Currency	CDN equivalent
Cash – USD	**4**	**6**	4	5
Accounts payable and accrued liabilities – USD	**96**	**135**	147	193
Accounts payable and accrued liabilities – EUR	**5**	**9**	-	-
Accounts payable and accrued liabilities – AUD	**-**	**-**	44	40

(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.

(All amounts in thousands of Canadian dollars)

23. Financial Risk Factors - *cont'd*

(b) Credit Risk – *cont'd*

The Corporation sells its products through a small number of wholesalers and retail pharmacy chains. The corporation has collection terms of 2/30 net 60 while its fully consolidated subsidiary, VPI Pharma Inc. has terms of 2/90 net 120. Accordingly, when determining the percentage of receivables which are current, the Corporation considers all receivables under 30 days for Valeo Pharma Inc. and all receivables under 90 days for VPI Pharma Inc. As at July 31, 2020, 88% of trade accounts receivables are current. As at July 31, 2020, three customers accounted for 66% 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 July 31, 2020.

	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Operating loan	-	-	960	-	960
Accounts payable and accrued liabilities	1,908	1,159	1,157	24	4,248
Provision for product returns	-	-	85	-	85
Convertible debentures	-	-	-	1,496	1,496
Non-convertible debentures	-	-	-	1,451	1,451
Accrued interest on debentures	85	4	12	-	101
Lease liability	5	10	46	248	309
	1,998	1,173	2,260	3,219	8,650

(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 July 31, 2020 the Corporation was not subject to any externally imposed capital requirements.

24. Subsequent events

a) On September 10, 2020, the corporation closed a bought deal offering of 5,750,000 units at $1.20 per unit for aggregate gross proceeds of $6.9 million. Each Unit consists of one common share ("Share") of the Company and one-half of one Share purchase warrant (each whole warrant, a "Unit Warrant"), with each Unit Warrant entitling the holder to purchase one Share of the Company at a price of $1.50 for a period of 24 months after the closing of the Offering and subject to accelerated expiry if the closing price of the Company's Shares on the Canadian Securities Exchange is equal to or greater than $2.00 for a period of ten (10) consecutive trading days.

b) On September 18, 2020, the promissory note together with the accrued interest thereon was reimbursed.

c) On September 23, 2020, the shares of the Corporation were approved for listing on the OTCQB market in the United States and began trading under the symbol "VPHIF". The Company will also continue to maintain the listing of its Shares on the CSE under the symbol "VPH".