Valeo Pharma Inc

Financial Report

April 30, 2019

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE THREE- AND SIX-MONTH PERIODS ENDED APRIL 30, 2019**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Discussion and Analysis ("MD&A") for Valeo Pharma Inc. (the "Corporation" or "Valeo") is the responsibility of management and has been reviewed and approved by the Corporation's Board of Directors. This discussion and analysis for the three-month and six-month periods ending April 30, 2019 was prepared by management from information available as at July 2, 2019, should be read in conjunction with the unaudited condensed interim consolidated financial statements and notes thereto for the quarter ended April 30, 2019 which have been prepared in accordance with *International Financial Reporting Standards ("IFRS")*. Unless otherwise noted, all amounts are presented 000's in Canadian dollars.

### Cautionary note regarding forward-looking statements

This MD&A may contain some forward-looking information as defined under applicable Canadian securities laws. Forward looking information can generally be identified using forward-looking terminology such as "may", "anticipate", "expect", "intend", "estimate", "continue" or similar terminology. Forward looking information is subject to various known and unknown risks and uncertainties, many of which are beyond the ability of the Corporation to control or predict, that may cause the Corporation's actual results or performance to be materially different from projected results and are developed based on assumptions about such risks and other factors set out herein.

### Non-IFRS Financial Measures

This MD&A refers to certain non-IFRS measures. Management uses these non-IFRS financial measures for purposes of comparison to prior periods and development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of ongoing operations and in analyzing our business performance and trends. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies.

Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures, "EBITDA", "Net contribution from Product Sales" and "Adjusted net margins from Product Sales", to provide supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures.

"EBITDA" is defined as net income (loss) before: (i) provision for (recovery of) income taxes; (ii) interest (income) expense and other financing costs; (iii) depreciation of property, plant, and equipment; and (iv) amortization of intangible assets.

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

"Net Contribution Margin" is defined as revenues from the sale of products less the cost of goods related to those products as a percentage of total product revenues.

"Adjusted Net Contribution" is defined as Net Contribution from Product Sales plus costs reimbursed and other income received from our partners.

"Adjusted Net Contribution Margin" is defined as Net Contribution from Product Sales plus costs reimbursed and other income received from our partners, as a percentage of total product revenues.

### Overview of the Business and Corporate Strategy

The Corporation is a specialty pharmaceutical company which sources, acquires or in-licenses brand and generic products for sale in Canada and the United States. The Corporation has two wholly-owned subsidiaries. VPI Pharmaceuticals Inc., located within the Corporation's premises in Kirkland, Québec, which specializes in the development and commercialization of generic products and Valeo Pharma Corp. located in the United States which is not active at the present time.

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

For our branded prescription product segment, Valeo's current and future product pipeline will include innovative products, with a focus on neurology, oncology and women's health. For our second business segment of niche hospital products which includes generics, the Corporation focuses mainly on licensing or acquiring injectable products used in the hospital setting for

pain management and oncology supportive care. On a selective basis, the Corporation may also acquire Canadian rights to non-hospital-based generics.

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

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

| Product | Indication | Partner | Regulatory, Commercial Status, and other important information |
|---|---|---|---|
| **Onstryv** (License) | Idiopathic Parkinson's disease as an add-on for people taking a stable dose of Levodopa (L-dopa) alone or in combination with other drugs, to help with "off" episodes when L-dopa is no longer effective | *Zambon S.p.A*. ("Zambon"), | The submission for Safinamide has been approved by *Health Canada* on January 10th, 2019. We have actively commenced launch preparation for Onstryv and will start commercializing this product early July 2019. |
| **M-Eslon** (Distribution Agreement) | Extended release morphine sulphate used for pain management. | Ethypharm Inc. ("Ethypharm") | Agency agreement signed in August 2015 with sale of product recorded on a net basis. Effective May 1, 2018, the contract was amended with Valeo assuming more commercial and quality control responsibilities and consequently revenues are now presented on a gross basis. |
| **Utrogestan** (Distribution Agreement) | micronized progesterone indicated for luteal phase support during in vitro fertilization cycles | *Besins Healthcare* | The product has received *Health Canada* approval and Valeo expects to start commercialization of Utrogestan in fiscal year 2019. |
| **Synacthen** (Distribution Agreement) | 17 approved indications including several in neurology | Mallinckrodt Pharmaceuticals ("Mallinckrodt") | Valeo currently markets this product for severe multiple sclerosis to approximately 100 neurology specialists across Canada as well as for gout. There is a global supply shortage on this product and Canadian sales have been halted at the end of the first quarter and should resume at the start of the 2020 fiscal year. (See "Revenue Analysis"). |
| **Ethacrynate Sodium** | Loop diuretic used to treat high blood pressure and associated swelling | Owned by Valeo worldwide except for Italy | **Canada** - Valeo has initiated commercialization of the product in the third quarter of fiscal 2018.<br>**United States** - The Corporation has entered into a strategic arrangement with Princeton Biopharma, LLC., a US based life science company, to commercialize the product. Valeo has filed a registration dossier with the FDA in order to obtain marketing approval which is expected in calendar year 2019. |
| **Benztropine** (Distribution Agreement) | Anticholinergic agent used for the treatment of Parkinson's disease | Phebra PTY Ltd. | Approved by Health Canada, on March 21, 2019. (See "Subsequent Events"). The Corporation expects to start commercializing the product before year-end. |
| **Ondansetron** (License) | Prevention of nausea and vomiting caused by cancer chemotherapy | Athena Pharmaceutiques S.A.S. ("Athena") | Approved and marketed in Canada. The Corporation has acquired the marketing authorization from Athena. Valeo expects to start commercializing the product before year-end. |
| **Biosimilar** | Undisclosed | Undisclosed | The Corporation has acquired the Canadian rights to a biosimilar not yet approved in the territory. Valeo plans to file a New Drug Submission ("NDS") in the third quarter of 2019 with marketing approval expected to follow before the end of fiscal year 2020. |
| **Undisclosed** | Ovarian Cancer | Undisclosed | Approved and marketed in Canada. The Corporation is in the process of acquiring the marketing authorization from its partner. Valeo expects to start commercializing the product before year-end. |
| **Hospital Products (6)** (3 Licenses) | Anti-fungal, Anti-infectives, Pain management and others | Three Undisclosed partners | The Corporation has acquired the Canadian rights to six additional hospital products not yet approved in the territory. Regulatory filings will take place over the coming year with marketing approval to follow within 9-15 months. |

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

The regulatory environment is such that the average timeline from commencing the registration process up to receiving marketing approval ranges from 12 to-18 months. Valeo currently possesses all the required expertise to manage all aspects relative to the filing, registration, as well as preparing for successful product launches of the products currently in its pipeline. Additional therapeutically focused personnel in marketing and sales will be added as current and future in-licensed products approach the end of their respective approval process.

The Corporation also maintains a dedicated warehousing space in Kirkland, Quebec, to handle all the inventory requirements for Canada. Valeo's 20,000 square foot facility includes 14,000 square feet of storage space, three licensed narcotics vaults, the capability to handle cold chain requirements, and shipping needs. There is ample space in our warehouse to facilitate the addition of several new products to our growing Canadian portfolio.

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

**Second Quarter 2019 Corporate Highlights**

On February 15, 2019 the shares of the Corporation were approved for listing on the Canadian Securities Exchange ("CSE"). Trading of the shares commenced February 20, 2019. Prior to the listing of the Corporation's shares on CSE, a total of $1,4 million worth of debentures raised as part of a non-brokered private placement plus accrued interest were converted into shares at a conversion price of $0.40, representing a total 3,567,158 shares.

On February 25, 2019 the Corporation amended its existing lease agreement. The term of the lease was extended for a five-year period commencing on September 1, 2019 and expiring on August 31, 2024 (the "Additional Term"). The annual base rent for the Additional Term will range from $92 to $99. In accordance with the term of the lease, the Corporation will pay additional rent including its proportionate share of operating costs and taxes.

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

On March 21, 2019, Health Canada granted VPI a marketing approval for Benztropine, an anticholinergic agent used for the treatment of Parkinson's disease. The Canadian rights to the product were previously licenced from Phebra PTY Ltd. Valeo expects to start commercializing Benztropine before year-end 2019.

**Statement of Compliance**

The financial information included in this MD&A for the ending April 30, 2019 have been prepared in accordance with *IFRS* as issued by the *International Accounting Standards Board ("IASB")* as well as with those standards and interpretations as issued by the *International Financial Reporting Interpretations Committee ("IFRIC")* issued and effective or issued and early adopted as at the time of preparing these statements.

**Use of Estimates and Judgements**

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

**Recently adopted accounting policies**

***IFRS 9 Financial Instruments***

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

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets, the Corporation has classified and measured its financial assets as described below: Cash and cash equivalents measured at fair value through profit or loss as with under International Accounting Standard 39 - Financial Instruments: Recognition and Measurement ("IAS 39") and continue to be measured as such under IFRS 9. The adoption of IFRS 9 did not result in a change in the carrying values of any of the Corporations financial assets on the transition date.

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

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

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

Financial liabilities are recognized initially at fair value, and in the case of financial liabilities, not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. Bank overdraft and indebtedness, accounts payable and accrued liabilities, loans, and long-term debt are classified as financial liabilities to be subsequently measured at amortized cost. The adoption of IFRS 9 did not result in a change in the carrying values of any of the Corporation's financial liabilities on the transition date.

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

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

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

| | Measurement | **April 30, 2019** | October 31, 2018 |
|---|---|---|---|
| | | **$** | $ |
| Financial assets: | | | |
| Cash | Fair value through profit or loss | **-** | 11 |
| Trade receivables | Amortized cost | **528** | 731 |
| Other receivables | Amortized cost | **132** | 154 |
| Financial liabilities: | | | |
| Bank overdraft | Amortized cost | **15** | - |
| Bank indebtedness | Amortized cost | **930** | 850 |
| Accounts payable and accrued liabilities | Amortized cost | **2,962** | 2,054 |
| Loans | Amortized cost | **1,067** | 96 |
| Long term loans | Amortized cost | **-** | 953 |
| Convertible debentures | Amortized cost | **-** | 507 |

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

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

**Future Accounting Pronouncements**

Certain new standards, interpretations and amendments to existing standards issued by the *IASB* or *IFRIC* that are not yet effective up to the date of issuance of the Corporation's consolidated financial statements are listed below.

- *IFRS 16 – Leases* – effective for annual periods beginning on or after January 1, 2019.

The Corporation is currently assessing the impact the adoption of *IFRS 16* will have on the consolidated financial statements. The Corporation intends to adopt these standards as they become effective.

**2019 Financial Overview**

**Three months ended April 30, 2019**

- Total revenues were $1,010 as compared to $275 for the prior year period, representing a 267% increase.
- No Synacthen revenues for the quarter and a one-time reduction of Product Sales for $380 as a result of the Synacthen product shortage. (See "Revenue Analysis")
- Net Product contribution was $147 as compared to $7 in the prior year period, representing a 2000% increase.
- Net loss after taxes is $1,141 compared to a loss after taxes of $572 for the prior year period.
- 71% increase in Selling, general and administrative expenses ("SG&A"), in large part due to non-recurrent pre-launch activities related to Onstryv. Onstryv is scheduled to be launched in the third quarter of 2019.

**Six months ended April 30, 2019**

- Total revenues were $2,805 as compared to $521 in the prior year period, representing a 438% increase.
- Significant year-over-year decline in Synacthen Revenues and one-time reduction of Product Sales for $424 as a result of the Synacthen product shortage. (See "Revenue Analysis")
- Net Product contribution was $433 as compared to $20 in the prior year period, representing a 2065% increase.
- Net loss after taxes is $2,129 compared to a loss after taxes of $1,185 for the prior year period.
- 77% increase in SG&A Expenses, in large part due to non-recurrent pre-launch activities related to Onstryv.

**Selected Consolidated Financial Data**

The following table sets forth financial information relating to the Corporation for the three-month periods indicated and should be read in conjunction with the April 30, 2019 unaudited condensed interim consolidated financial statements.

| **Consolidated Statements of Loss** | **Three months ending April 30,** | | | **Six months ending April 30,** | | |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| | **$** | $ | % | **$** | $ | % |
| Revenues | **1,010** | 275 | *267%* | **2,805** | *521* | *438%* |
| Cost of Sales | **(863)** | (160) | *439%* | **(2,372)** | *(268)* | *785%* |
| **Gross Profit** | **147** | 115 | *28%* | **433** | *253* | *71%* |
| SG&A Expenses | **(1,300)** | (760) | *71%* | **(2,568)** | *(1,447)* | *77%* |
| Financial expenses | **(61)** | (57) | *7%* | **(133)** | *(123)* | *8%* |
| Other income | **73** | 22 | *232%* | **139** | *24* | *479%* |
| Impairment on balance of sale | **-** | 150 | *-100%* | **-** | *150* | *-100%* |
| | **(1,288)** | (645) | *100%* | **(2,562)** | *(1,396)* | *84%* |
| **Loss before income taxes** | **(1,141)** | (530) | *115%* | **(2,129)** | *(1,143)* | *86%* |
| (Provision for) recovery of income taxes | **-** | (42) | *-100%* | **-** | *(42)* | *-100%* |
| **Net loss for the year** | **(1,141)** | (572) | *99%* | **(2,129)** | *(1,185)* | *80%* |
| **Other comprehensive loss** | | | | | | |
| Exchange differences on translating foreign operations | **(3)** | (6) | *-50%* | **(3)** | *1* | *-400%* |
| Defined benefit plan, net actuarial loss | **(70)** | 6 | *-1267%* | **(70)** | *6* | *-1267%* |
| **Total comprehensive loss** | **(1,214)** | (572) | *112%* | **(2,202)** | *(1,178)* | *87%* |
| **Loss per share** | | | | | | |
| Basic and diluted | **0.03** | 0.02 | *40%* | **0.05** | *0.04* | *27%* |
| **Weighted average number of shares outstanding** | **47,726,835** | 31,400,000 | *52%* | **46,291,520** | *31,400,000* | *47%* |

**Revenue Analysis**

The following table provides more information regarding the gross margin contribution from product revenues for the three and six-month periods ended April 30, 2019 and April 30, 2018.

| | Three months ending April 30, | | | Six months ending April 30, | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | *Change* | **2019** | 2018 | *Change* |
| | **$** | $ | *%* | **$** | *$* | *%* |
| Net Product revenue | **1,010** | **167** | *505%* | **2,805** | 288 | *874%* |
| Agency revenue | **-** | **108** | *-100%* | **-** | 233 | *-100%* |
| Total Revenues | **1,010** | **275** | *267%* | **2,805** | 521 | *438%* |
| Cost of sales | **(863)** | **(160)** | *439%* | **(2,372)** | (268) | *785%* |
| Gross Profit | **147** | **115** | *28%* | **433** | 253 | *71%* |
| Gross Profit % | **14.6%** | **42.0%** | *-65%* | **15.4%** | 48.7% | *-68%* |
| Net Contribution | **147** | 7 | *2000%* | **433** | 20 | *2065%* |
| Net Contribution margin | **14.6%** | 4.2% | *247%* | **15.4%** | 6.9% | *122%* |
| Adjusted net Contribution | **186** | 67 | *178%* | **533** | 140 | *281%* |
| Adjusted net Contribution margins | **18.4%** | 40.1% | *261%* | **19.0%** | 48.8% | *125%* |

Total revenues for the first six months of 2019 reached $2,805 compared to $521 in 2018 representing a 438% increase. In 2018, the bulk of the Corporation's revenues related to the sale and distribution of M-Eslon and M-Ediat for Ethypharm as well as Synacthen for Mallinckrodt. Prior to May 1, 2018, the Corporation was acting as an agent under the Ethypharm distribution contract, therefore, revenues relating to the products sold under this arrangement were presented on a net basis in the consolidated statements of loss, net of the cost of sales. Effective May 1, 2018, the Ethypharm contract was amended and the Corporation took over more responsibilities in relation to the sales of M-Eslon and M-Ediat which led to Valeo acting as the principal in the sales of these products (the "Ethypharm Amendment"). Following the Ethypharm Amendment, revenues from the sale of M-Eslon and M-Ediat are presented on a gross basis, in the same manner as the Corporation's other products. The gross margin on these sales is at a fixed percentage of gross sales. Due to the Ethypharm Amendment, Product Revenues have increased significantly since the second quarter of 2018, while agency revenues have decreased to nil during the same period.

Sales of Ethacrynate Sodium have improved sequentially since we launched the product in the third quarter of 2018. Sales of this product come mainly from tenders with hospital buying organizations as well as new non-contract buyers. During the second quarter of 2019, sales of Ethacrynate Sodium have picked up and although nominal at $0.04 million, our 85% contribution margin for this product has impacted positively our results for the quarter.

With up to five additional product launches planned for the balance of 2019, as well as the addition of several new products in the coming years, our Net Margins are expected to improve significantly as the mix of our product revenues incorporates products with respective net margins ranging from 40% to 85%.

Synacthen product shortage

Prior to the end of the first quarter 2019, sales of Synacthen were halted due to a global supply shortage of the product. All prior sales of this product in Canada had an expiry date of February 28, 2019. Consequently, our clients have returned all unsold and unused products to Valeo during the latter part of the first quarter and the second quarter of 2019, without being able to replace the products with new supplies. Under our agreement with Mallinckrodt, the cost of all product returned are billed back to our partner at cost. Due to this non-recurrent event, Valeo's Net Product Revenues for the first six months of 2019 have been negatively impacted by $424 worth of product returns, including $380 for the second quarter only, as well as a year-over-year Synacthen revenue decline due to shortage. We expect nominal returns of Synacthen for the remainder of 2019. The product has no alternative in Canada and Valeo is the only suppliers of Synacthen in the country. When sales of Synacthen resume, the Company expects no market share loss due to the supply shortage. The global shortage should last until the end of the calendar year 2019.

Net Contribution from Product sales

Net Contribution from Product Sales have increased significantly in the second quarter of 2019 as compared to the prior year following the Ethypharm Amendment. As a result of this change the Net Contribution Margin has increased from 4.2% to 14.6% between the two reported periods. Our Net Contribution Margins do not take into account selling cost reimbursed by both Mallinckrodt and Ethypharm for sales of product performed by Valeo. These reimbursements are applied as a reduction of SG&A expenses and /or included in Other Income.

**Selected Consolidated Financial Data** – *cont'd*

After taking into account these reimbursements and other income, our Adjusted Net Contribution from Product Sales would have been $186 and $533 respectively for the three and six-month period in 2019, as compared to $67, and 140 for the same period on 2018, representing increases of 178% and 281% respectively. The Adjusted Net Contribution is more indicative of the true Net Margin we are receiving from the sale of our existing products.

**Sales, General and Administrative Expenses**

Our SG&A expenses have increased significantly between the two reported periods. SG&A expenses in the second quarter of 2019 was $1,300 compared to $760 in the corresponding quarter in 2018 representing a 71% increase and $2,568 compared to $1,447 for the six-month period representing a 77% increase. The second quarter and year-to-date increases include $201 and $476 of non-recurrent marketing expenses incurred for 1) preparing the launch of Onstryv in the third quarter of 2019 as well as 2) ensuring proper marketing access for the products throughout the various Canadian territories. The increase also includes the addition of regulatory, sales as well as administrative personnel to support the expansion of our product pipeline and overall increase in activity. Stock based compensation increased as compared to the prior year period as more options have been granted resulting in increased administration expenses.

**Financial Expenses**

In the current fiscal year, financial expenses were $133 compared to $123 in 2018. The increase was mainly explained by an increase in the Corporation's borrowing rates which are based on Canada's prime rate as well an increase of interests charged on the Corporation's related party loans, the latter were negotiated in exchange for an extension of the terms.

**Other Income**

Other income for second quarter of 2019 totalled $73 as compared to $22 in the corresponding period last year and $139 compared to $24 for the six-month period representing a 479% increase. Other Income increased over 2018 as the Corporation's revenues from third party contracts increased significantly. Considering the quality and the broad range of development, regulatory and quality control expertise of its staff, Valeo remains opportunistic by offering back-office administrative and third-party consulting support to virtual companies that are sub-leasing part of its premises.

**Provision for Income Taxes**

The Corporation has accumulated non-capital losses of $3,962 for income tax purposes in Canada and US$93 for income tax purposes in the United States, which are available to be applied against future taxable income and expire in the years 2029-2038. The Corporation has not recognized the tax benefit of the losses arising in Canada or the United States and will recognize them when future profits are probable in the respective jurisdictions

The following table provides a reconciliation of net loss to EBITDA for the three and six-month periods ended April 30, 2019 and April 30, 2018.

| **EBITDA Reconciliation** | **Three months ending April 30,** | | | **Six months ending April 30,** | | |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| | $ | $ | % | $ | *$* | *%* |
| **Net loss for the quarter** | **(1,141)** | (572) | 99% | **(2,129)** | (1,185) | *80%* |
| *Add (deduct)* | | | | | | |
| Provision for income (recovery of) income taxes | **-** | 42 | -100% | **-** | 42 | *-100%* |
| Interest expense | **29** | 57 | -49% | **73** | 113 | *-35%* |
| Depreciation of property and equipment | **10** | 10 | - | **19** | 19 | - |
| Amortization of intangible assets | **3** | - | +100% | **7** | - | *+100%* |
| **Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA(L))** | **(1,099)** | (505) | 118% | **(2,030)** | (1,053) | *93%* |

**Selected Quarterly Results**

The following table highlights selected unaudited consolidated financial data for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the unaudited condensed interim consolidated financial statements for the three and six months ended April 30, 2019.

| | 2019 | | 2018 | | | | 2017 | |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Net Product Revenue (Note 1) | **1,010** | **1,795** | 1,750 | 2,110 | 167 | 121 | 160 | 214 |
| Agency revenue | **-** | **-** | - | - | 109 | 125 | 111 | 119 |
| Cost of goods sold | **863** | **1,509** | 1,604 | 1,677 | 160 | 108 | 142 | 188 |
| Gross Profit | **147** | **286** | 146 | 434 | 115 | 137 | 129 | 145 |
| SG&A expense | **1,300** | **1,268** | 1,085 | 730 | 753 | 694 | 790 | 734 |
| Financing expense | **61** | **72** | 46 | 97 | 57 | 66 | 53 | 39 |
| Other (income) expense | **(73)** | **(65)** | (60) | (65) | (14) | (9) | 49 | (9) |
| Impairment of Investment | **-** | **-** | 4 | - | - | - | - | - |
| (Recovery) impairment on balance of | **-** | **-** | - | - | (150) | - | 856 | (10) |
| Net loss before taxes | **(1,141)** | **(988)** | (929) | (328) | (530) | (612) | (1,619) | (609) |
| Recovery of (provision for) income tax | **-** | **-** | - | 5 | (42) | - | 395 | 145 |
| Net loss for the quarter | **(1,141)** | **(988)** | (929) | (323) | (572) | (612) | (1,224) | (464) |

**Notes**

1. Net product revenues for the two quarters of 2018 and 2019 came entirely from the distribution of hospital products. Prior to the third quarter of 2018, revenue from the agency agreement was recognized net of cost of goods sold. At the start of the third quarter of 2018, the agency contract was amended, and revenue from that contract is now recognized on a gross basis.

SG&A expenses will vary from quarter to quarter depending on business activities, however expenses in the first two quarters of 2019 were higher as a result of increased non-recurrent marketing and pre-launch expenses related to Onstryv.

**Consolidated Balance Sheet Highlights**

| As at, | April 30, 2019 | October 31, 2018 |
|---|---|---|
| | $ | $ |
| (Bank overdraft) / Cash | **(15)** | 11 |
| Current assets | **803** | 1,044 |
| Total assets | **3,208** | 3,385 |
| Current liabilities | **5,028** | 3,052 |
| Long-term loans, debentures and pension obligation | **306** | 1,701 |
| Share Capital | **5,986** | 4,659 |
| Contributed Surplus | **384** | 267 |
| Deficit | **(8,230)** | (6,101) |

**Liquidity and Capital Resources**

The purpose of liquidity management is to ensure that there is sufficient cash to meet all of our financial commitments and obligations as they come due. Our ability to accomplish our strategic plans is dependent upon earning sufficient revenues from our existing products, bringing new products to market, achieving future profitable operations and obtaining additional financing or executing other strategic initiatives that could provide cash inflows.

In the period completed on April 30, 2019, the Corporation's revenue from its sales and distribution activities did not cover its operating costs. This deficiency was funded by the issuance of convertible debt and the increase in the Corporation's operating credit facility. There was a working capital deficiency of $4,225 as at April 30, 2019 compared to a working capital deficiency of $2,008 at the end of fiscal 2018.The $2.2 million increase includes close to $1M in loans from related parties. The bulk of these loans will be converted concurrent to the Offering (see "Subsequent Events"). The balance comes from an increase in accounts payable for $0.9 million, decrease in accounts receivables for $0.2 million and increase in our short-term borrowings for less than $0.1 million.

**Liquidity and Capital Resources** – *cont'd*

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

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

Also, the Corporation's prior initiatives related to product acquisition rights and regulatory filings should lead to a series of product launches over the coming quarters. In addition to the anticipated launch of Onstryv as well as Ondansetron ODT in the third quarter of the current fiscal year, the Corporation expects to 1) launch Benztropine as well as two more products before year end, and 2) obtain the regulatory approval of Sodium Ethacrynate in the United States in the calendar year 2019.

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

**Cash Flows**

| | Six months ended | |
|---|---|---|
| **Sources and Uses of Cash** | **April 30, 2019** | **April 30, 2018** |
| | **$** | $ |
| **Operating activities:** | | |
| Net loss from operations | **(2,129)** | (1,185) |
| Other Items not affecting cash | **250** | 170 |
| Changes in non-cash working capital | **1,059** | 576 |
| Cash used in operations | **(820)** | (439) |
| **Investing activities**: | | |
| Cash used by investing activities | **(123)** | (281) |
| **Financing activities:** | | |
| Cash provided by financing activities | **936** | 725 |
| Foreign exchange (loss) gain on cash | **(4)** | - |
| Increase (decrease) in cash | **(11)** | 5 |
| Cash, beginning of period | **11** | 3 |
| **Cash, end of period** | **-** | 8 |

**(a) Operating activities**

Cash used in operations represents the cash flows from operations, excluding income and expenses not affecting cash. Cash used in operations for the period including the change in non-cash working capital was $820 compared to $439 in the prior year period. Major items and non-cash included in operations in 2019 were: (i) 2,129 net loss from operations (up 80% from 2018), (ii) $117 of share-based compensation compared to $4 for 2018 and (iii) $48 of provision for sales returns versus nil in 2018.

Changes in non-cash working capital components provided $1,059 of cash in the period compared to $576 in 2018.

**(b) Investing activities**

Cash used by investing activities in the period was $123 as compared to cash used of $281 in 2018. In the first 6 months of 2019, $123 was invested to acquire assets.

**(c) Financing activities**

During the period, financing activities provided cash of $936 compared to $725 in 2018. In the first six months of 2019, a total of $900 was raised by issuing debentures convertible into Common Shares of Valeo upon listing of the Corporation's shares on a Canadian Securities Exchange. The balance related to interest accrued on convertible debentures less share issue costs.

**Transactions with Related Parties**

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

| | Three months ending April 30, | | Six months ending April 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Key management salary and benefits | **193** | 181 | **398** | 419 |
| Directors and employee stock option compensation | **84** | 2 | **117** | 4 |
| Consulting fee paid to a company controlled by an officer | **61** | - | **106** | - |

**Off balance sheet arrangements**

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

**Risk Management**

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

**(a) Market risk**

(i) Currency risk

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

(ii) Cash flow and fair value interest rate risk

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

In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which includes marketability risk, through its investments in financial instruments which are carried at fair value. The Corporation does not believe that the results of operations nor cash flows would be materially affected to any significant degree by a sudden change in market interest rates relative to interest rates on its financial assets and liabilities.

**(b) Credit Risk**

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

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

**(c) Liquidity Risk**

Liquidity available via the Corporation's operating activities and credit facilities will provide the Corporation with a large portion of the funds needed to meet its short-term financial obligations that are due as of April 30, 2019. Long term loans and convertible debt held by the Corporation's shareholders also contribute to fund operations.

**(d) Specific Risks**

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

**Management of Capital**

The Corporation considers capital to be composed of loans, convertible debt and shareholders' equity. At April 30, 2019, the Corporation had $1,067 of loans with former shareholders and related parties. The bulk of these loans will be converted concurrent to the Offering (see "Subsequent Events").

The Corporation manages its capital structure to meet the financial needs of the day-to-day operations. Over the last year, the Corporation has funded its the working capital requirements out of its internally-generated cash flows, the use of its credit facilities and the injection of capital by way of debentures or loans from related parties and/or new shareholders.

Going forward, the Corporation will continue to monitor the growth of its internally generated cash flows, and look to compensate any shortfall by securing new debt from its existing shareholders and/or third party lenders as well as look for opportunities to attract new capital by expanding its shareholder base. As at April 30, 2019 the Corporation is not subject to any externally imposed capital requirements.

**Commitments**

The Corporation's current lease expires on August 24, 2019. On February 25, 2019 the Corporation amended its current lease agreement. The term of the lease was extended for a five-year period commencing on September 1, 2019 and expiring on August 31, 2024 (the "Additional Term"). The annual base rent for the Additional Term will range from $92 to $99. In accordance with the term of the lease, the Corporation will pay additional rent including its proportionate share of operating costs and taxes.

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

**Subsequent Events**

On May 27, 2019, Valeo announced the pricing of a fully marketed public financing (the "Offering"). The Corporation previously filed on April 30, 2019 a preliminary short form prospectus in each of the provinces and territories of Canada. Each unit will consist of one Class "A" share and one share purchase warrant. Each warrant shall be exercisable into one share at a price of $0.60 per warrant share, for a period of 36 months from the closing of the Offering. If, at any time prior to the expiry of the warrants, the volume weighted average trading price of the Valeo shares equals or exceeds $1.10 for 20 consecutive trading days, Valeo may, within 15 days of the occurrence of such event, deliver a notice to the holders of warrants accelerating the expiry date of the warrants to the date that is 30 days following the date of such notice. Any unexercised warrants shall automatically expire at the end of the accelerated exercise period.

# Valeo Pharma Inc.

## Unaudited Condensed Interim Consolidated Financial Statements

For the three- and six-month periods ended April 30, 2019 and 2018

# Valeo Pharma Inc.
Table of Contents


| | Page |
|---|---|
| **Condensed Interim Consolidated Financial Statements** | |
| Unaudited Condensed Interim Consolidated Statements of Financial Position | *3* |
| Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss | *4* |
| Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Deficit | *5* |
| Unaudited Condensed Interim Consolidated Statements of Cash Flows | *6* |
| **Condensed Interim Notes to Consolidated Financial Statements** | *7* |

# Valeo Pharma Inc.
## (Unaudited) Condensed Interim Consolidated Statements of Financial Position
*In thousands of Canadian dollars, except for share and per share amounts*
*As at,*

| | *Notes* | **April 30, 2019** **$** | October 31, 2018 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | **-** | 11 |
| Trade receivables | | **528** | 731 |
| Prepaid expenses | | **50** | 53 |
| Other receivables | *4* | **132** | 154 |
| Inventory | | **93** | 95 |
| **Total current assets** | | **803** | 1,044 |
| Property and equipment | | **306** | 310 |
| Intangible assets | *5* | **2,099** | 1,984 |
| Deferred share issue costs | | **-** | 47 |
| **Total non-current assets** | | **2,405** | 2,341 |
| **Total assets** | | **3,208** | 3,385 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIT** | | | |
| Bank overdraft | | **15** | - |
| Operating loan | *6* | **930** | 850 |
| Accounts payable and accrued liabilities | *7* | **2,962** | 2,054 |
| Provision for product returns | | **54** | 52 |
| Loans | *8* | **1,067** | 96 |
| **Total current liabilities** | | **5,028** | 3,052 |
| Long-term loans | *8* | **-** | 953 |
| Convertible debentures | *8* | **-** | 507 |
| Defined benefit obligation | | **306** | 241 |
| **Total non-current liabilities** | | **306** | 1,701 |
| **Total liabilities** | | **5,334** | 4,753 |
| Share capital | *10* | **5,986** | 4,659 |
| Contributed surplus | | **384** | 267 |
| Deficit | | **(8,230)** | (6,101) |
| Accumulated other comprehensive loss | | **(266)** | (193) |
| **Total shareholders' deficit** | | **(2,126)** | (1,368) |
| **Total liabilities and shareholders' deficit** | | **3,208** | 3,385 |

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

These unaudited condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on July 2, 2019.

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

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

# Valeo Pharma Inc.

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

*In thousands of Canadian dollars, except for share and per share amounts*
*For the three- and six-month periods ending April 30th,*

| | | Three-months ended | | Six-months ended | |
|---|---|---|---|---|---|
| | | **April 30 2019** | April 30 2018 | **April 30 2019** | April 30 2018 |
| | ***Notes*** | **$** | $ | **$** | $ |
| **Revenues** | *12* | **1,010** | 275 | **2,805** | 521 |
| **Cost of Sales** | | **863** | 160 | **2,372** | 268 |
| **Gross Profit** | | **147** | 115 | **433** | 253 |
| Selling, general and administrative expenses | *13* | **1,300** | 760 | **2,568** | 1,447 |
| Financial expenses | *14* | **61** | 57 | **133** | 123 |
| Other income | *15* | **(73)** | (22) | **(139)** | (24) |
| Recovery on balance of sale | | **-** | (150) | **-** | (150) |
| | | **(1,288)** | (645) | **(2,562)** | (1,396) |
| **Net loss before income taxes** | | **(1,141)** | (530) | **(2,129)** | (1,143) |
| **Provision for income taxes** | | | | | |
| Current | | **-** | (42) | **-** | (42) |
| **Net loss for the period** | | **(1,141)** | (572) | **(2,129)** | (1,185) |
| **Other comprehensive loss** | | | | | |
| Exchange differences on translating foreign operations | | **(3)** | (6) | **(3)** | 1 |
| Defined benefit plan, net actuarial (loss) gain | | **(70)** | 6 | **(70)** | 6 |
| **Total comprehensive loss** | | **(1,214)** | (572) | **(2,202)** | (1,178) |
| **Loss per share:** | | | | | |
| Basic and diluted | | **(0.03)** | (0.02) | **(0.05)** | (0.04) |
| **Weighted average number of shares outstanding** | | **47,726,835** | 31,400,000 | **46,291,520** | 31,400,000 |

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

# Valeo Pharma Inc.

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

*In thousands of Canadian dollars, except for share and per share amounts*
*For the six-month period ending April 30th,*

| | Notes | Share Capital | | | Accumulated OCI | | | |
|---|---|---|---|---|---|---|---|---|
| | | Common Shares $ | Deficit $ | Contributed surplus $ | Defined benefit plan $ | Foreign exchange translation $ | Total OCI $ | Total $ |
| As at October 31, 2017 | | 413 | (3,018) | 189 | (157) | (30) | (187) | (2,603) |
| Net loss | | - | (1,185) | - | - | - | - | (1,185) |
| Other comprehensive income | | - | - | - | 6 | 1 | 7 | 7 |
| Share based compensation | | - | - | 4 | - | - | - | 4 |
| As at April 30, 2018 | | 413 | (4,203) | 193 | (151) | (29) | (180) | (3,777) |
| **As at October 31, 2018** | | **4,659** | **(6,101)** | **267** | **(160)** | **(33)** | **(193)** | **(1,368)** |
| **Net loss** | | **-** | **(2,129)** | **-** | **-** | **-** | **-** | **(2,129)** |
| **Other comprehensive loss** | | **-** | **-** | **-** | **(70)** | **(3)** | **(73)** | **(73)** |
| **Share based compensation** | *(10)* | **-** | **-** | **117** | **-** | **-** | **-** | **117** |
| **Share issue costs** | *(10)* | **(100)** | **-** | **-** | **-** | **-** | **-** | **(100)** |
| **Conversion of debentures** | *(10)* | **1,427** | **-** | **-** | **-** | **-** | **-** | **1,427** |
| **As at April 30, 2019** | | **5,986** | **(8,230)** | **384** | **(230)** | **(36)** | **(266)** | **(2,126)** |

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

# Valeo Pharma Inc.
## (Unaudited) Condensed Interim Consolidated Statements of Cash Flow
*In thousands of Canadian dollars, except for share and per share amounts*

*For the six-month period ending April 30th,*

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| **Operating activities:** | | | |
| Net loss from operations | | **(2,129)** | (1,185) |
| **Add (deduct) items not affecting cash:** | | | |
| Depreciation of property and equipment | | **19** | 19 |
| Amortization of intangible assets | *5* | **7** | - |
| Provision for sales returns | | **48** | - |
| Share based compensation | | **117** | 4 |
| Share issue costs | | **21** | - |
| Interest expense | | **55** | 98 |
| Defined benefit pension expense | | **5** | 4 |
| Provision for income taxes | | **-** | 42 |
| Unrealized (gain) loss on foreign exchange | | **(22)** | 3 |
| Net change in non-cash operating working capital | | **1,059** | 576 |
| Cash used by operations | | **(820)** | (439) |
| **Investing activities:** | | | |
| Acquisition of property and equipment | | **(15)** | (7) |
| Acquisition of intangible assets | | **(108)** | (309) |
| Acquisition of intangible assets – reimbursement | | **-** | 35 |
| Cash used by investing activities | | **(123)** | (281) |
| **Financing activities:** | | | |
| Increase in bank indebtedness | | **80** | 50 |
| Increase in bank overdraft | | **15** | 59 |
| Increase in convertible debentures | *8* | **900** | - |
| Increase in long-term loans | | **-** | 624 |
| Deferred share costs | | **(49)** | - |
| Funding of defined benefit plan | | **(10)** | (8) |
| Cash provided by financing activities | | **936** | 725 |
| **Foreign exchange loss on cash** | | **(4)** | - |
| **(Decrease) increase in cash** | | **(11)** | 5 |
| Cash, beginning of year | | **11** | 3 |
| **Cash, end of period** | | **-** | 8 |

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

## 1. Presentation of Financial Statements

### Description of the Business

Valeo Pharma Inc. (the "Corporation") is incorporated under the Canada Business Corporations Act. The Corporation is listed on the Canadian Stock Exchange ("CSE") under the symbol VPH and its head office, principal place of business and registered office is located at 16667 Hymus Blvd., Kirkland, Quebec, Canada.

The Corporation is a pharmaceutical company that acquires and markets speciality products and markets and distributes third-party pharmaceutical products. 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).

### Statement of Compliance

These unaudited condensed interim consolidated financial statements of the Corporation have been prepared for the three- and six-month periods ended April 30, 2019 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements have been prepared in accordance with those IFRS standards and interpretations of the International Financial Reporting Interpretations Committee issued and effective or issued and early adopted as at the time of preparing these statements and also in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting as issued by the IASB. These unaudited condensed interim consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2018 as they follow the same accounting policies and methods of application.

These unaudited condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on July 2, 2019.

## 2. Summary of Significant Accounting Policies

### a) Basis of consolidation

These unaudited condensed consolidated interim financial statements consolidate those accounts of the Corporation and its wholly owned subsidiaries (the "Group"). All subsidiaries have a quarterly reporting date of April 30. All transactions and balances between Group companies are eliminated upon consolidation, including unrealized gains and losses on transactions between Group companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective.

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

### b) Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on a going-concern basis, under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. This implies that the Corporation will continue realizing assets and discharging liabilities in the normal course of business for the foreseeable future. Should the going concern assumption not continue to be appropriate for the Corporation, further adjustments to carrying values of assets and liabilities may be required. On April 30, 2019, there was a consolidated working capital deficiency of $4,225 (October 31, 2018 – $2,008) and a consolidated loss of $2,129 for the six months ended April 30, 2019 (consolidated loss of $1,185 for the six months ended April 30, 2018).

Accordingly, the ability of the Corporation to realize the carrying value of its assets and continue operations as a going concern is dependent upon its ability to obtain additional financing as needed and ultimately on generating future profitable operations. Management anticipates that commercialization of new products and other revenue will provide operating revenue 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. These unaudited consolidated condensed interim 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.

*In thousands of Canadian dollars, except for share and per share amount*

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

**c) Recently adopted accounting policies**

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

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

***IFRS 9 Financial Instruments***

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

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business model under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets, the Corporation has classified and measured its financial assets as described below: Cash and cash equivalents measured at fair value through profit or loss ("FVTPL") as with under International Accounting Standard 39 - Financial Instruments: Recognition and Measurement ("IAS 39") and continue to be measured as such under IFRS 9. The adoption of IFRS 9 did not result in a change in the carrying values of any of the Corporation's financial assets on the transition date.

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

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

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

IFRS 9 requires a forward-looking expected credit loss impairment ("ECL") model as opposed to an incurred credit loss model under IAS 39. The Corporation's financial assets include trade receivables and other receivables, and the Corporation opted to use the general approach for measuring the loss allowance at an amount equal to lifetime ECL. Under the general approach, at each reporting date, an entity recognizes a loss allowance based on either 12-month

*In thousands of Canadian dollars, except for share and per share amount*

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

ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. The changes in the loss allowance balance are recognized in profit or loss as an impairment gain or loss. The adoption of the ECL model does not have a material impact on the Corporation's financial statements and did not result in a transitional adjustment.

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

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

| | Measurement | **April 30 2019 $** | October 31 2018 $ |
|---|---|---|---|
| Financial assets: | | | |
| Cash | Fair value through profit or loss | **-** | 11 |
| Trade receivables | Amortized Cost | **528** | 731 |
| Other receivables | Amortized Cost | **132** | 154 |
| Financial liabilities: | | | |
| Bank overdraft | Amortized cost | **15** | - |
| Bank indebtedness | Amortized cost | **930** | 850 |
| Accounts payable and accrued liabilities | Amortized cost | **2,962** | 2,054 |
| Loans | Amortized cost | **1,067** | 96 |
| Long term loans | Amortized cost | **-** | 953 |
| Convertible debentures | Amortized cost | **-** | 507 |

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

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

**3. Use of Estimates and Judgements**

The preparation of the unaudited condensed consolidated interim financial statements requires management to undertake several judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from these judgements and estimates. These estimates and judgements are based on management's best knowledge of the events or circumstances and actions the Corporation may take in the future. The estimates are reviewed on an ongoing basis. Information about the significant judgements, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in *Note 3* of the Corporation's 2018 annual financial statements and are still applicable for the six months ended April 30, 2019.

*In thousands of Canadian dollars, except for share and per share amount*

## 4. Other Receivables

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

| | **April 30, 2019** | October 31, 2018 |
|---|---|---|
| | **$** | $ |
| Receivables from others | **91** | 122 |
| Sales taxes receivable | **41** | 32 |
| | **132** | 154 |

## 5. Intangible Assets

Intangible assets are composed of:

| | **Submission costs** | **License fee** | **Total** |
|---|---|---|---|
| | $ | $ | $ |
| Balance as at October 31, 2018 | **984** | **1,000** | **1,984** |
| Additions | **122** | **-** | **122** |
| Amortization | **(7)** | **-** | **(7)** |
| **Balance as at April 30, 2019** | **1,099** | **1,000** | **2,099** |

## 6. Operating Loan

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

- $1,400 and
- The total of
  a) the assigned credit balances for the Corporation;
  b) 80% of accounts receivables of the Corporation, net of over 90-day accounts, contra accounts, related accounts and all other accounts not valued by the Bank;
  c) Up to $400 of assigned marketable securities held by Manitex Capital Inc. (“Manitex”) a company controlled by the CEO of the Corporation.

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

## 7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are composed of:

| | **April 30, 2019** | October 31, 2018 |
|---|---|---|
| | **$** | $ |
| Accounts payable | **2,612** | 1,559 |
| Payables to related parties (i) | **70** | 88 |
| Accrued liabilities | **280** | 407 |
| | **2,962** | 2,054 |

| | | |
|---|---|---|
| *(i) Included in payables to related parties* | | |
| Compensation owed to a person who is an officer and minority shareholder | **30** | 20 |
| Consulting fees owed to a company controlled by an officer | **-** | 12 |
| Expenses owed to persons who are officers, employees and consultants incurred in the normal course of business and companies controlled by officers and employees | **40** | 56 |

*In thousands of Canadian dollars, except for share and per share amount*

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

Loans consist of:

| | **April 30, 2019** | October 31, 2018 |
|---|---|---|
| | **$** | $ |
| Loan – unsecured, due to former shareholders, accrues interest at 1% per month, with no set terms of repayment and a maturity date of June 30, 2019. Includes accrued interest of $6. | **99** | 96 |
| Loan – secured, due to Manitex, accrues interest at 5% per annum, with no set terms of repayment and a maturity date of November 1, 2019. Includes accrued interest of $19. | **377** | - |
| Loans – unsecured, due to Manitex, accrues interest at 8% per annum, with no set terms of repayment and a maturity date of March 31, 2020. Includes accrued interest of $21. | **419** | 403 |
| Loan – secured, due to Manitex, accrues interest at 5% per annum, with no set terms of repayment and a maturity date of November 1, 2019. Includes accrued interest of $9. | **-** | 384 |
| Loan – unsecured, due to shareholders, accrues interest at 8% per annum, with no set terms of repayment and a maturity date of March 31, 2020. Includes accrued interest of $12. | **172** | 166 |
| Current liabilities | **1,067** | 96 |
| Non-current liabilities | **-** | 953 |

Convertible debentures consist of:

| | **April 30, 2019** | October 31, 2018 |
|---|---|---|
| | **$** | **$** |
| Convertible debenture – unsecured due to a shareholder, accrues interest at 8% per annum, with no set terms of repayment and a maturity date of November 30, 2019. Includes accrued interest of $7 | **-** | 507 |
| | **-** | 507 |

During the 1st and 2nd quarter 2019, Valeo issued $900 of additional unsecured subordinated convertible debentures, maturing on or before January 31, 2020. The debentures bear interest at 5% per annum from the date of issue, payable quarterly in arrears. On February 15, 2019, Valeo converted $1,400 of outstanding debentures, plus accrued interest of $27 into 3,567,158 Class "A" common shares *(Note 10),* representing a conversion price of $0.40 per share.

## 9. Income Taxes

Deferred tax assets have not been recognized in respect of deductible temporary difference of approximately $561 which arise from non-capital losses incurred in the six-month period to April 30, 2019.

The Corporation has accumulated non-capital losses of $3,962 for income tax purposes in Canada and US $93 for income tax purposes in the United States, which are available to be applied against future taxable income and expire as follows:

*In thousands of Canadian dollars, except for share and per share amount*

**9. Income Taxes –** *cont'd*

| | CDN $ | US $ |
|---|---|---|
| 2029 | - | 33 |
| 2030 | - | 2 |
| 2031 | - | 11 |
| 2032 | - | 42 |
| 2033 | - | 3 |
| 2034 | - | - |
| 2035 | 3 | - |
| 2036 | 20 | 1 |
| 2037 | 1,191 | 1 |
| 2038 | 2,748 | - |

**10. Share Capital**

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

(b) Authorized:

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

| | Class A | |
|---|---|---|
| | # | $ |
| As at October 31, 2018 | 44,903,008 | 4,659 |
| Share Issue costs | - | (100) |
| Conversion of debentures into shares (i) | 3,567,158 | 1,427 |
| **As at April 30, 2019** | **48,470,166** | **5,986** |

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

(c) Share option issuances and compensation expense:

In fiscal 2018, the Corporation adopted an amended and restated stock option incentive plan for directors, officers and employees to enable the purchase of common shares of the Corporation. The exercise price for these shares cannot be less than the lowest price permitted by applicable regulatory authorities. Subject to the terms of the plan, the Board of Directors may, from time to time, grant options to participants to purchase that number of shares that, they determine, in their absolute discretion.

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

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

*In thousands of Canadian dollars, except for share and per share amount*

**10. Share Capital** – *cont'd*

**(i) Changes in outstanding options were as follows during the year:**

| | **April 30, 2019** | | October 31, 2018 | |
|---|---|---|---|---|
| | **Number** | **Exercise Price** | Number | Exercise Price |
| Options outstanding, beginning of year | **1,740,810** | **$0.37** | 365,810 | $0.25 |
| Cancelled during the period | **(150,000)** | **$0.40** | - | - |
| Granted during the period | **797,222** | **$0.40** | 1,375,000 | $0.40 |
| Options outstanding, end of period | **2,388,032** | **$0.38** | 1,740,810 | $0.37 |
| Options exercisable, end of period | **781,890** | **$0.34** | 536,858 | $0.37 |

**(ii) The following options were granted in the respective reporting periods:**

For the period ended April 30, 2019

| Number of options | Issue date | Expiry date | Exercise price | Fair value of options |
|---|---|---|---|---|
| 200,000 (i) | November 13, 2018 | November 13, 2025 | $0.40 | $0.21 |
| 200,000 (i) | November 19, 2018 | November 19, 2025 | $0.40 | $0.21 |
| 397,222 (ii) | February 19, 2019 | February 19, 2024 | $0.40 | $0.40 |
| 797,222 | | | | |

(i) The options vest 25% on the grant date and then 37.5% every year following the grant date.

(ii) The options vest 25% on the grant date and then 25 % every year following the grant date.

For the period ended October 31, 2018

| Number of options | Issue date | Expiry date | Exercise price | Fair value of options |
|---|---|---|---|---|
| 400,000 (i) | September 17, 2018 | September 17, 2025 | $0.40 | $0.27 |
| 650,000 (ii) | September 17, 2018 | September 17, 2025 | $0.40 | $0.27 |
| 325,000 (iii) | September 17, 2018 | September 17, 2025 | $0.40 | $0.27 |
| 1,375,000 | | | | |

(i) The options vest 25% immediately and then 37.5% every year following the grant date.

(ii) The options vest 25% immediately and then 25% every year following the grant date.

(iii) These options vest on performance criteria related to funds raised by the Corporation. These options have a cancellation date of December 31, 2020.

**(iii) The remaining contractual life for the share options outstanding at April 30, 2019 are:**

| Number | Exercisable | Stock Price | Fair Value | Exercise price | Remaining contractual life |
|---|---|---|---|---|---|
| 365,810 | 320,084 | $0.77 | $0.14 | $0.25 | 2.01 |
| 2,022,222 | 461,806 | $0.77 | $0.21 - $0.40 | $0.40 | 5.85 |

*In thousands of Canadian dollars, except for share and per share amount*

**10. Share Capital** – *cont'd*

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

| | |
|---|---|
| Risk-free interest rate | 0.72% - 2.42% |
| Volatility factor | 67% - 90% |
| Expected life | 3 - 4.6 years |
| Expected dividend rate | 0% |
| Forfeiture rate | 0% |

The expected stock price volatility of was estimated by using historical data from public companies in the same sector and the duration of each of the award.

The total share-based compensation in the second quarter of 2019 amounted to $84 (2018 - $2) recognized in contributed surplus.

**11. Other Cash Flow Information**

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

| | Six months ending | |
|---|---|---|
| | **April 30, 2019** | April 30, 2018 |
| | **$** | $ |
| Decrease (increase) in trade receivables | **184** | (18) |
| Decrease in prepaid expenses | **3** | 2 |
| Decrease (increase) in inventory | **2** | (191) |
| Decrease (increase) in other receivables | **14** | (31) |
| Increase (decrease) in accounts payable and accrued liabilities | **902** | (24) |
| Decrease in sales return provision | **(46)** | - |
| Decrease in income taxes | **-** | 838 |
| | **1,059** | 576 |

**12. Net Product Revenues**

| | Three months ending | | Six months ending | |
|---|---|---|---|---|
| | **April 30, 2019** | April 30, 2018 | **April 30, 2019** | April 30, 2018 |
| | **$** | $ | **$** | $ |
| Net sales revenue | **1,010** | 167 | **2,805** | 288 |
| Agency revenue | **-** | 108 | **-** | 233 |
| | **1,010** | 275 | **2,805** | 521 |

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

*In thousands of Canadian dollars, except for share and per share amount*

### 13. Selling, General and Administrative Expenses

| | Three months ending | | Six months ending | |
|---|---|---|---|---|
| | **April 30, 2019** | April 30, 2018 | **April 30, 2019** | April 30, 2018 |
| | **$** | $ | **$** | $ |
| Depreciation of property and equipment | **10** | 10 | **19** | 19 |
| Amortization of intangible assets (*Note 5*) | **3** | - | **7** | - |
| Administrative expenses | **365** | 227 | **669** | 450 |
| Selling and marketing expenses | **319** | 70 | **716** | 93 |
| Product development costs | **3** | - | **14** | - |
| Employee compensation | **511** | 447 | **1,021** | 877 |
| Share based compensation | **84** | 2 | **117** | 4 |
| Pension expense | **5** | 4 | **5** | 4 |
| | **1,300** | 760 | **2,568** | 1,447 |

### 14. Financial Expenses

| | Three months ending | | Six months ending | |
|---|---|---|---|---|
| | **April 30, 2019** | April 30, 2018 | **April 30, 2019** | April 30, 2018 |
| | **$** | $ | **$** | $ |
| Interest on loans | **18** | 14 | **35** | 26 |
| Interest on debentures | **3** | 36 | **20** | 72 |
| Foreign exchange fluctuation | **(3)** | (3) | **(2)** | - |
| Credit facility costs, cash discounts and bank charges | **43** | 10 | **80** | 25 |
| | **61** | 57 | **133** | 123 |

### 15. Other Income

| | Three months ending | | Six months ending | |
|---|---|---|---|---|
| | **April 30, 2019** | April 30, 2018 | **April 30, 2019** | April 30, 2018 |
| | **$** | $ | **$** | $ |
| Interest income | **-** | **1** | **-** | 1 |
| Rental income | **8** | **7** | **16** | 9 |
| Service income | **65** | **14** | **123** | 14 |
| | **73** | **22** | **139** | 24 |

### 16. Related Party Transactions

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

| | Three months ending | | Six months ending | |
|---|---|---|---|---|
| | **April 30, 2019** | April 30, 2018 | **April 30, 2019** | April 30, 2018 |
| | **$** | **$** | **$** | $ |
| Key management salary and benefits | **193** | 181 | **398** | 419 |
| Directors and employee stock option compensation | **84** | 2 | **117** | 4 |
| Consulting fee paid to a company controlled by an officer | **61** | - | **106** | - |

*In thousands of Canadian dollars, except for share and per share amount*

### 17. Financial Instruments

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

| **April 30, 2019,** | **Fair value through profit and loss** | **Fair value through other comprehensive income** | **Amortized cost** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Financial assets: | | | |
| Trade receivables | - | - | **528** |
| Other receivables | - | - | **132** |
| | - | - | **660** |
| | | | |
| Financial liabilities: | | | |
| Bank overdraft | **-** | - | **15** |
| Bank indebtedness | **-** | | **930** |
| Accounts payable and accrued liabilities | **-** | - | **2,962** |
| Loans | **-** | - | **1,067** |
| | **-** | - | **4,974** |

| October 31, 2018 | Carrying Value | | |
|---|---|---|---|
| | FVTPL | Loans and receivables | Fair Value |
| | Level 1 | Level 3 | |
| | $ | $ | $ |
| Financial Assets | | | |
| Cash | 11 | - | 11 |
| Trade receivables | - | 731 | 731 |
| Other receivables | - | 154 | 154 |
| | 11 | 885 | 896 |
| Financial Liabilities | | | |
| Bank indebtedness | - | 850 | 850 |
| Accounts payable and accrued liabilities | - | 2,054 | 2,054 |
| Loans | - | 96 | 96 |
| Long-term loan | - | 953 | 953 |
| Convertible debt | - | 507 | 507 |
| | - | 4,460 | 4,460 |

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 Corporation's own credit risk, that reflects current market conditions for instruments with similar terms and risks.

The Corporation categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observation of the inputs used in the measurement. For the periods ended April 30, 2019 and October 31, 2018, the Corporation has carried at fair value financial instruments in Level 1. At April 30, 2019, the Corporation's only financial instrument measured at fair value is cash, which is considered a Level 1 instrument. There were no transfers between levels during the year.

The three levels are defined as follows:
Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

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

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

| Date of Fair Value Measurement | | Level 1 $ | Level 2 $ | Level 3 $ |
|---|---|---|---|---|
| **April 30 2019** | | | | |
| **Assets** | **None** | **-** | **-** | **-** |
| **Liabilities** | **None** | **-** | **-** | **-** |
| October 31 2018 | | | | |
| Assets | Cash | 11 | - | - |
| Liabilities | None | - | - | - |

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

**18. Financial Risk Factors**

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

(a) Market risk

(i) Currency risk

The Corporation is exposed to financial risks that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. Valeo has an investment in a U.S. subsidiary however this subsidiary is currently not active. The Corporation does not hold financial derivatives to manage the fluctuation of these risks.

At April 30, 2019, a 5% increase/decrease in the USD/CDN exchange rates would not have a material impact on net loss or equity. Other comprehensive income would not have been materially impacted in either of the above two situations.

(ii) Cash flow and fair value interest rate risk

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

(b) Credit Risk

The Corporation considers its maximum credit risk to be based on the following financial assets: cash, trade and other receivables. Credit-risk arises from cash and deposits with banks and financial institutions. The Corporation reduces this risk by dealing with creditworthy financial institutions.

Credit risk also results from the possibility that a loss may occur from the failure of another party to adhere to payment terms. To lower this risk, the Corporation's extension of credit is based on an evaluation of each customer's financial condition. Management reviews the ageing of trade accounts receivable and other factors relating to the risk that customer accounts may not be paid in full and, when appropriate, reduces the carrying value to provide for possible loss. No loss has been charged to earnings in the current year.

*In thousands of Canadian dollars, except for share and per share amount*

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

The Corporation sells its products through a small number of wholesalers and retail pharmacy chains. As at April 30, 2019, 82% are current (less than 30 days). As at April 30, 2019, three customers accounted for 88% of the trade receivables. The Corporation believes that there is no unusual exposure associated with the collection of these receivables.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at April 30, 2019.

| | Less than 30 days | 30 days to 3 months | 3 months to 12 months | More than 12 months | Total |
|---|---|---|---|---|---|
| Financial Liabilities | | | | | |
| Bank overdraft | **15** | **-** | **-** | **-** | **15** |
| Bank indebtedness | **-** | **-** | **930** | **-** | **930** |
| Accounts payable and accrued liabilities | **1,033** | **1,185** | **744** | **-** | **2,962** |
| Loans | **-** | **99** | **968** | **-** | **1,067** |
| | **1,048** | **1,284** | **2,642** | **-** | **4,974** |

**19. Capital Structure Financial Policy**

The Corporation considers capital to be composed of convertible debt and long-term debt. At April 30, 2019, the Corporation had $1,067 of loans owed to Manitex and other shareholders and $nil of convertible debt.

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

The Corporation manages the capital structure and makes adjustment to it considering changes in economic conditions and the risk characteristics of the underlying assets. The Corporation's capital structure is managed in conjunction with the capital structure and financial needs of the day-to-day operations. The Corporation currently funds the working capital requirements out of its internally generated cash flows and the use of credit facilities. To maintain or adjust the capital structure, the Corporation will work to secure new debt from its shareholders and expand the shareholder base with new participation that would make additional funds available.

Management does not establish quantitative return on capital criteria, however management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Corporation, is appropriate. At April 30, 2019 the Corporation is not subject to any externally imposed capital requirements.

**20. Subsequent Events**

(a) On May 27, 2019, Valeo announced the pricing of a fully marketed public financing (the "Offering"). The Corporation previously filed on April 30, 2019 a preliminary short form prospectus in each of the provinces and territories of Canada. Each unit will consist of one Class "A" share and one share purchase warrant. Each warrant shall be exercisable into one share at a price of $0.60 per warrant share, for a period of 36 months from the closing of the Offering. If, at any time prior to the expiry of the warrants, the volume weighted average trading price of the Valeo shares equals or exceeds $1.10 for 20 consecutive trading days, Valeo may, within 15 days of the occurrence of such event, deliver a notice to the holders of warrants accelerating the expiry date of the warrants to the date that is 30 days following the date of such notice. Any unexercised warrants shall automatically expire at the end of the accelerated exercise period.