Annual Report 2020

Fiscal Year ended on

October 31, 2020

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and operating results of Valeo Pharma Inc. ("Valeo" or the "Corporation") for the year ended October 31, 2020. This document should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended October 31, 2020 which have been prepared in accordance with *International Financial Reporting Standards*. All amounts herein are expressed in thousands of Canadian dollars (unless otherwise indicated) except for share and per share amounts. All other currencies are in thousands. This discussion and analysis were prepared by management from information available as at February 24, 2021. Further information about Valeo Pharma Inc., including the Annual Information Form, is available online on SEDAR at www.sedar.com.

Non-IFRS Financial Measures

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

We use non-IFRS measures, such as EBITDA and Adjusted EBITDA to provide investors with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the valuation of issuers. We also use non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets, and to assess our ability to meet our future debt service, capital expenditure and working capital requirements.

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

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

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

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

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

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

Cautionary note regarding forward-looking statements

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

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

GLOSSARY TERMS

Calendar & Financial

COGS	Cost of Goods Sold (or Cost of Sales)
IR	Investors Relation
G&A	General and Administrative
S&M	Sales and Marketing
SBC	Share-Based Compensation
SG&A	Sales General and Administrative
FY-21	Fiscal Year 2021
FY-20	Fiscal Year 2020
FY-19	Fiscal Year 2019
Q1-21	First quarter FY-21
Q4-20	Fourth quarter FY-20
Q3-20	Third quarter FY-20
Q2-20	Second quarter FY-20
Q1-20	First quarter FY-20
Q4-19	Fourth quarter FY-19
Q3-19	Third quarter FY-19
Q2-19	Second quarter FY-19
Q1-19	First quarter FY-19
QoQ	Current year quarterly results vs last year's quarterly results
YE-19	Year-end 2019, October 31, 2019
YE-20	Year-end 2020, October 31, 2020
YTD	Year to date
YoY	Current FY results vs last FY results
W/C	Working Capital, defined as short-term assets less short-term liabilities

Corporate & Operations

Biosimilar	Biologic drug that is highly similar to a biologic drug.
COVID-19	Mild to severe respiratory illness caused by a coronavirus
CSE	Canadian Securities Exchange
CTA	Clinical Trial Application with Health Canada
DIN	Drug Identification Number
FDA	United States Food and Drug Administration
FSE	Frankfurt Stock Exchange
GDUFA	Generic Drug User Fee Act in the USA
HC	Health Canada
INESSS	Quebec's Institut National d'Excellence en Santé et Services Sociaux
LMWH	Low Molecular Weight Heparin
NDS	New Drug Submission with Health Canada
OTCQB	U.S. over-the-counter venture market
pCPA	pan-Canadian Pharmaceutical Alliance
PD	Parkinson's Disease
PLA	Product listing agreement
PMPRB	Patented Medicine Prices Review Board
RAMQ	Régie de l'assurance maladie du Québec
VPI	Wholly owned subsidiary of Valeo focussed on the commercialization of generic products

OVERVIEW OF THE BUSINESS AND BUSINESS STRATEGY

The Corporation is a specialty pharmaceutical company which sources, acquires or in-licenses brand and generic products for sale in Canada. Valeo's business objective is to become a leading Canadian healthcare company by focusing on the commercialization of innovative products that improve patient lives and support healthcare providers. The Corporation operates in two distinct business divisions: branded prescription and OTC products, and hospital injectable products. Such divisions have been selected in order to leverage the Corporation's expertise and create operational synergies. Therapeutic fields are selected based on market potential (size and growth prospects), competitive landscape, and resource requirements needed to reach the target audience and execute our commercialization strategy. For our branded prescription/OTC product division, Valeo's current and future product pipeline will include innovative products, with a focus on neurology, oncology, and hospital specialty products. Our second business division, hospital injectable products, consists primarily of licensing injectable generic drugs that are used in a hospital setting. On a selective basis, the Corporation may also acquire Canadian rights to non-hospital-based generics.

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

The Corporation has 38 full time employees and consultants including a team of 14 pharmaceutical representatives and medical science liaison staff. Valeo maintains a dedicated warehousing space in Kirkland, Quebec to handle all the inventory requirements for Canada. Valeo's 20,000 square foot facility includes 14,000 square feet of warehouse space, three licensed narcotics vaults, the capability to handle cold chain requirements and shipping needs. There is ample space in our warehouse to facilitate the addition of several new products to our growing Canadian portfolio. Valeo also operates a sophisticated SAP enterprise resource planning system and possesses the in-house expertise to handle all activities associated with regulatory, quality control, sales, inventory management, shipping and pharmacovigilance. The ability to handle such a broad range of activities has been a key factor in our successful in-licensing activities and acquisition of third-party product rights for Canada.

The Corporation has two wholly owned subsidiaries: VPI Pharmaceuticals Inc., located within the Corporation's premises in Kirkland, Québec, which specializes in the development and commercialization of generic products and Valeo Pharma Corp. located in the United States.

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

Product Portfolio

As at the end of Q4-20, Valeo Pharma's product portfolio included nine (9) commercial stage products as well as four (4) products currently in pre-launch and or regulatory stage. Pre-launch stage products include products for which we already have obtained the DIN from HC, and where supply of finished products is being arranged prior to launch. Regulatory stage products include products that have been submitted to HC with approvals pending, as well as products that Valeo intends to submit to HC during FY-21. The submission of some of these products may be postponed should Valeo not be able to fully access the information required for ensuring a successful review by HC.

Our product portfolio includes 2 products that are expected to have a material impact on our revenues over the coming quarters, namely Hesperco™, a flavonoid used to support the immune system, and Redesca™, a LMWH biosimilar used for the treatment and prevention of blood clots, a $200 million market in Canada.

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

The regulatory environment is such that the average timeline from commencing the registration process to receiving marketing approval ranges from 12-18 months. In circumstances where a product has an existing DIN, the time between the signing of the license and the start of commercialization is approximately 6-9 months. Valeo possesses all the required expertise to manage all aspects relative to the filing, registration, as well as successfully launching the products currently in its pipeline. Additional therapeutically focused personnel in marketing and sales will be added as current and future in-licensed products approach the end of their respective approval process.

Commercial Stage

Products	Indications	Partners	Regulatory, Commercial Status, and other important information
Onstryv® (License)	Idiopathic PD as an add-on for patients on stable dose of Levodopa (L-dopa) alone or in combination with other drugs, to help with "off" episodes.	*Zambon S.p.A*. ("Zambon"),	Marketed since Q3-19 and expected to reach peak sales within 3-5 years post launch. On February 6th, 2020, Valeo received notice of a positive recommendation by INESSS to the Quebec Health Minister (the "Minister") for the inclusion of Onstryv® on the list of drugs covered by RAMQ. Quebec public listing is imminent but still pending.
M-Eslon (Distribution Agreement)	Extended-release morphine sulphate used for pain management.	Ethypharm Inc. ("Ethypharm")	The Corporation is distributing since 2015 the product and is recording sales on a gross basis since 2018.
Yondelis® *Trabectedin* (license)	Soft tissue sarcoma	PharmaMar S.A.	Commercial launch took place early Q4-20. Over the coming year, Valeo intends to implement various initiatives such as Patient-Access-Programs, aimed at expending the use of this product.
Ametop™ Gel	Anesthesia of the skin prior to venepuncture or venous cannulation	Alliance Pharma	Marketed since Q4-20.
Benztropine (Distribution)	Anticholinergic agent used for the treatment of PD	Asia/Pacific Generic Mfg.	Marketed since Q4-18, hospital specialty distribution.
Ethacrynate Sodium	Loop diuretic used to treat high blood pressure and associated swelling	Owned by Valeo worldwide except for Italy	**Canada:** Marketed in Canada since Q3-18, hospital specialty distribution. **US:** Approved by FDA in June 2020. US sales started in Q4-20 via Valeo's US distribution partner.
Ondansetron ODT (*Note 1*)	Prevention of nausea and vomiting caused by cancer chemotherapy	European Generic Mfg.	Commercially available in retail pharmacies across Canada since Q4-18. Valeo will cease to commercialize the product at the end of Q1-21.
HesperCo	Bioflavonoid antioxidant used for immune support.	Ingenew Pharma.	During FY-20, the Corporation initiated the formulation development and manufacturing of Hesperco. The product is commercially available since October 2020 via on-line selling as well as Amazon Canada. Further to the start of a clinical trial by the prestigious Montreal Heart Institute (see Corporate Highlights), Hesperco is expected to be available in Canadian retailers Q2-21. US launch of the product will take place in Q2-21.

Note 1: Valeo will no longer be commercializing this product after January 31, 2021, this decision is expected to have nominal impact on the Corporation's revenues and profitability.

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

Pre-launch / Regulatory Stage

Product	Indication	Partner	Regulatory, Commercial Status, and other important information
Redesca™ (Distribution Agreement)	LMWH - Anticoagulant biosimilar used to treat and prevent deep vein thrombosis and pulmonary embolism.	Shenzhen Techdow Pharmaceuticals Co., Ltd.	Approved by HC in December 2020. The Canadian market for LMWH exceeds $200M on an annual basis (Source: IQVIA, 2019 LMWH market). Redesca has more than 8 years of proven in-market safety internationally and more than 150 million patient days treated in Europe alone. Discussions to have Redesca™ included for provincial reimbursement across Canada have been initiated and on December 18th, 2021, Valeo received notice of a positive recommendation by INESSS to the Quebec Health Minister (the "Minister") for the inclusion of Redesca™ on the list of drugs covered by RAMQ. Commercial launch is expected to occur in the first half of FY-21 supported by a dedicated salesforce of eleven (11) highly experienced sales representatives.
Amikacin	Injectable Antibiotic	European Generic Mfg.	Approved by HC in 2020. Annual market size for this product is $2.5M. Sales are expected to commence during Q2-21.
Pip-Tazo *(Piperacillin/ tazobactam)*	Injectable Antibiotic	European Generic Mfg.	Approved by HC, manufacturing and supply of the API and finished products have been impacted by the Covid-19 outbreak. Valeo expects to launch the product before the end of FY-21.
Undisclosed Hospital Product #1	Injectable Antifungal	Undisclosed	The Corporation has acquired the Canadian rights to this product not yet approved by HC. The Product has been filed with HC with approval expected in FY-22 with sales expected to commence within 6 months of HC approval.

Other

Product	Indication	Partner	Regulatory, Commercial Status, and other important information
Synacthen (Distribution Agreement)	17 approved indications including several in neurology	Atnahs Pharma UK Limited ("Atnahs")	Valeo marketed this product from 2015 to 2019 for severe multiple sclerosis to approximately 100 neurology specialists across Canada as well as for gout. There is a global supply shortage for this product and Canadian sales were halted at the end of the Q3-19. We currently have no visibility regarding the end of the product shortage. Once supply is available, we will meet with HC to ensure the most optimal re-launch of this product.

Q4-2020 FINANCIAL AND CORPORATE HIGHLIGHTS

Results Overview

Due to the addition of several commercial products during the last portion of FY-20, Valeo has made continued progress toward becoming a profitable EBITDA company. New products such as Ametop and Yondelis, launched in the last portion of 2020 following DIN transfers from other commercial organizations, have had an immediate impact on the Corporation's revenues and margins. Sodium Ethacrynate has been launched in the US through Valeo's US-based commercial partner. These products have already begun to impact revenues without adding SG&A expenses. This is part of our strategy to expand our commercial pipeline and help drive profitability going forward.

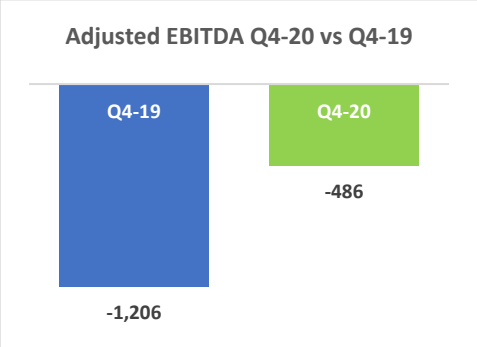
In order to support the launch and market share gains of new products such as HesperCo and Redesca™, approved by HC in December, the Corporation has opted to increase its SG&A spending. We continue to implement initiatives aimed at increasing our short term and our medium-term revenues and to improve our revenue mix and the margins derived from those product sales.

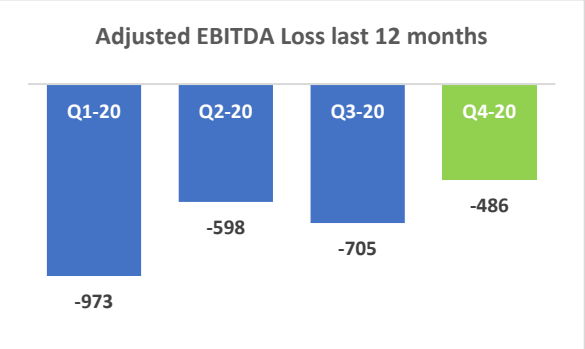
Our FY-20 results have been impacted by several non-recurrent costs and adjustments which have had a negative (one-time) impact during the quarter. Despite stable cost of sales to gross revenues ratio which is indicative of stable product mix, (see "Selected Quarterly Financial Information") these non-recurrent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

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

During the past year we have introduced several new Non-IFRS financial metrics which are meant to help better appreciate our progress. We have introduced Gross revenues and Gross to net revenues ratio which help track the growth of our revenues and items impacting

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





2020 CORPORATE HIGHLIGHTS

Financial Results

Q4-20 vs Q4-19 Performance

- Gross Revenues grew 52% in Q4-20 compared to Q4-19.
- Net Product Revenues grew 76% in Q4-20 compared to Q4-19.
- Gross Margin grew 210 % in Q4-20 compared to Q4-19.
- Net loss dropped 16% between Q4-19 and Q4-20.
- EBITDA loss improved 32% between Q4-19 and Q4-20
- Adjusted EBITDA loss dropped 60% between Q4-19 and Q4-20

FY-20 vs FY-19

- Net Product Revenues grew 14% over the prior fiscal year.
- Net loss increased 32% between the two fiscal years.
- EBITDA loss increased 11% between the two fiscal years.
- Adjusted EBITDA loss improved by 14% between the two fiscal years.
- $10.8 million total financings in FY-20 vs $5.0 million in FY-19

Products Highlights

- On January 21, 2020, Valeo announced the signing of a licensing agreement with PharmaMar S.A. for the exclusive rights to commercialize Yondelis® (trabectedin), a novel marine-derived antitumor agent.
- On February 6th, 2020, Valeo received notice of a positive recommendation by INESSS to the Québec Health Minister for the inclusion of Onstryv® on the list of medications covered by the Régie de l'assurance maladie du Québec.
- On April 28th, 2020, signing of a licensing agreement with Alliance Pharma plc. for the exclusive commercialization rights to Ametop™ Gel (Tetracaine hydrochloride gel) in Canada.
- On June 8th, 2020, the Corporation announced that it had received a Notice of Compliance from Health Canada authorizing the transfer of the commercial rights of Yondelis® to Valeo.
- On June 16th, 2020 – Valeo announced that it has received approval for its Abbreviated New Drug Application ("ANDA") from the U.S. Food and Drug Administration ("FDA") for Ethacrynate Sodium 50 mg.
- On July 13, 2020, the Corporation announced that it had received a Notice of Compliance from Health Canada authorizing the transfer of the Ametop™ commercial rights to Valeo.
- On October 13, 2020, the Corporation announced that it has commenced the commercialization of Hesperco™, its unique flavonoid formulation.

Corporate & Financings

- Closing on February 27th, 2020 of a non-brokered private placement for $2,078 worth of unsecured convertible debentures at a price of $1 (one thousand) per Debenture. The debentures bear interest at a rate of 12% per annum with a maturity date of February 27, 2023. Each $1 (one thousand) debenture will be convertible at a price per Class "A" share equal to $0.40. A subsequent closing for additional gross proceeds of $100 took place on March 26th, 2020 on the same terms with a maturity date of March 26, 2023.

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

  the date of receipt of the notice, failing which the Warrants will automatically expire.
- On August 11, 2020, Valeo's shares were listed and commenced trading on the Frankfurt Stock Exchange under the symbol "VP2".
- On September 10, 2020, the Corporation announced that it has closed a bought deal offering of 5,000,000 units (the "Units") at a price of $1.20 per Unit (the "Unit Price") along with the exercise in full of the Underwriters' over-allotment option of 750,000 additional Units at the Unit Price for aggregate gross proceeds of $6.9 million (the "Offering"). The Units were sold on a bought deal basis pursuant to an underwriting agreement dated August 26, 2020 with a syndicate of underwriters led by Stifel GMP and including Industrial Alliance Securities Inc., Desjardins Securities Inc. and Mackie Research Capital Corporation. Each Unit consists of one common share ("Share") of the Company and one-half of one Share purchase warrant (each whole warrant, a "Unit Warrant"), with each Unit Warrant entitling the holder to purchase one Share of the Company at a price of $1.50 for a period of 24 months after the closing of the Offering and subject to accelerated expiry if the closing price of the Company's Shares on the Canadian Securities Exchange is equal to or greater than $2.00 for a period of ten (10) consecutive trading days.
- On September 11, 2020, the warrants issued in connection with the Offering commenced trading on the CSE under the symbol "VPH.WT.A".
- On September 23, 2020, the Corporation announced that the Company was qualified to trade on the OTCQB market in the United States. Valeo's shares have started trading on the OTCQB under the symbol "VPHIF".

Subsequent to October 31, 2020 Year-end

- On November 12, 2020, the Corporation announced that it had received a Notice of Compliance from HC granting market authorization for Amikacin, an antibiotic used within the hospital setting. Valeo also announced that shipments of Ethacrynate Sodium had commenced in the U.S. market.
- On December 9, 2020, the Corporation announced that Health Canada has issued a Notice of Compliance for Redesca and Redesca HP low molecular weight heparin ("LMWH") biosimilars.
- On January 18, 2021, the Corporation announced the appointment of Mr. Frederic Fasano to the newly created position of President and Chief Operating Officer, to augment its senior leadership team and support expansion of Valeo's commercial activities. Mr. Fasano was also elected to the Company's Board of Directors. In addition to Valeo announced that in addition to continuing in his role as CEO of Valeo, Mr. Saviuk would assume the role of Vice-Chairman of Valeo's Board of Directors. Mr. Richard MacKay remains Chairman of the Board.
- On January 25, 2021, the Corporation announced that it has received notice of a positive recommendation by Quebec's Institut national d'excellence en santé et en services sociaux ("INESSS") to the Health Minister for the inclusion of its Low Molecular Weight Heparin biosimilar (LMWH), Redesca™ and Redesca™ HP, on the list of medications covered by the Régie de l'assurance maladie du Québec (RAMQ) for the prevention and treatment of thromboembolic disorders.
- On February 17, 2021, the Corporation announced that the Montreal Heart Institute initiated a clinical trial to evaluate the ability of hesperidin, the medicinal ingredient in Hesperco™ capsules, to reduce the severity of symptoms and the need for hospitalization in COVID-19 patients. Hesperidin interferes and inhibits 2 key proteins of SARS-CoV-2 responsible for the infection of healthy cells, suggesting that hesperidin may disrupt the replication rate of the virus and enable infected patients to build natural immunity. Hesperidin's safety profile and immune-modulatory activity make it a highly promising molecule to intervene at various stages of the COVID-19 infection process.

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

SELECTED FINANCIAL DATA

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

Consolidated Statements of Loss

	Q4-20	Q4-19	*Change*		FY-20	FY-19	*Change*	
	$	$	*$[1]*	*%[2]*	**$**	$	*$[1]*	*%[2]*
Gross Product Revenues	**2,501**	1,644	857	*52%*	**8,714**	8,055	*659*	*8%*
Sales Adjustments/Deductions (SAD)	**286**	388	(102)	*-26%*	**1,244**	1,478	*(234)*	*-16%*
Net Product Revenues	**2,215**	1,256	959	*76%*	**7,470**	6,577	*893*	*14%*
Gross to net revenue ratio	***89%***	*76%*	*12%*		***86%***	*82%*	*4%*	
Cost of Sales	**1,778**	1,115	663	*59%*	**6,089**	5,176	*913*	*18%*
Cost of Sales as % of Gross Revenues	***71%***	*68%*	*3%*		***70%***	*64%*	*6%*	
Gross Margin	**437**	141	296	*210%*	**1,381**	1,401	*(20)*	*-1%*
Gross Margin ratio %	***20%***	*11%*	*9%*		***18%***	*21%*	*-3%*	
Expenses								
S&M	**475**	708	(233)	*-33%*	**2,124**	2,011	*113*	*6%*
G&A	**773**	771	2	*0%*	**3,114**	2,802	*312*	*11%*
Total SG&A	**1,248**	1,479	(231)	*-16%*	**5,238**	4,813	*425*	*9%*
Total SG&A % (of gross revenues)	***50%***	*90%*	*-40%*		***60%***	*60%*	*0%*	
SBC	**232**	97	135	*139%*	**469**	325	*144*	*44%*
Profit Sharing	**(9)**	-	(9)	*-100%*	**17**	-	*17*	*100%*
Financial expense	**176**	10	166	*1660%*	**617**	131	*486*	*371%*
Other income	**(34)**	(51)	17	*-33%*	**(199)**	(253)	*54*	*-21%*
Total Expenses	**1,613**	1,535	78	*5%*	**6,142**	5,016	*1,126*	*22%*
Loss before income taxes	**(1,176)**	(1,394)	218	*-16%*	**(4,761)**	(3,615)	(1,146)	*32%*
Recovery of income taxes								
Current	**-**	-	-	*0%*	**-**	-	-	*0%*
Net loss for the period	**(1,176)**	(1,394)	218	*-16%*	**(4,761)**	(3,615)	(1,146)	*32%*
Other Comprehensive Loss								
Exchange differences on translating foreign operations	**-**	3	(3)	*-100%*	**(2)**	-	*(2)*	*100%*
Defined benefit plan, net actuarial loss	**(55)**	(63)	8	*-13%*	**(95)**	(133)	*38*	*-29%*
Total comprehensive loss	**(1,231)**	(1,454)	223	*-15%*	**(4,858)**	(3,748)	(1,110)	*30%*
Loss per share								
Basic and diluted	**(0.02)**	(0.02)	-	0%	**(0.08)**	(0.07)	(0.01)	14%
Weighted average number of shares outstanding	**61,455,033**	56,659,423	*4,795,610*	*8%*	**57,902,242**	49,588,556	*8,313,686*	*17%*

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

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

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

The following table provides a reconciliation of net loss to EBITDA(L) for Q4-20, and FY-20 as compared to 2019 periods.

	Q4-20 $	Q4-19 $	Change $[1]	Change %[2]	FY-20 $	FY-19 $	Change $[1]	Change %[2]
Net Loss	**(1,176)**	(1,394)	218	*16%*	**(4,761)**	(3,615)	(1,146)	*32%*
Adjustments								
Interest Expense	**182**	9	173	*1922%*	**598**	110	488	*444%*
Depreciation	**25**	9	16	*178%*	**100**	39	62	*159%*
Amortization	**89**	76	13	*17%*	**324**	98	226	*231%*
EBITDA Loss	**(880)**	(1,300)	420	*-32%*	**(3,739)**	(3,368)	(371)	*11%*
Other Adjustments								
Contractual Products returns/recalls [3]	**14**	-	14	*100%*	**159**	-	159	*100%*
Share-Based Compensation	**232**	97	135	*139%*	**469**	325	144	*44%*
Other warrants/ options costs	**22**	-	22	*100%*	**189**	-	189	*100%*
Exchange Listing fees [4]	**(21)**	-	(21)	*100%*	**12**	-	12	*100%*
Impairment of intangible assets	**43**	-	43	*100%*	**43**	-	43	*100%*
Inventory Write-off	**104**	-	104	*100%*	**205**	-	205	*100%*
Contract penalty for early termination	**-**	-	-	*-%*	**53**	-	53	*100%*
Adjusted EBITDA Loss	**(486)**	(1,203)	717	***-60%***	**(2,609)**	(3,043)	434	***-14%***

1. A positive variance represents a positive impact to net income and a negative variance represents a negative impact to net income
2. Percentage change is presented in relative values
3. Not in the normal course of business
4. Not related to share issuance

	Q4-20 vs Q4-19	FY-20 vs FY-19
Gross Revenues	• Gross revenues represent sales of products based on Valeo's listed price prior to taking into consideration any recurrent and non-recurrent price adjustments or other deductions. (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures") • Valeo's gross revenues are derived from the commercialization of 2 groups of products. The first group is comprised of "branded" prescription/OTC products such as Onstryv® and Redesca™ which contribute strong gross profit margins but, except for M-Eslon, require important S&M support. The second group includes our hospital-injectable products which require nominal S&M and contribute variable margins depending on the licensing terms. In Q1-21, Valeo launched Hesperco™, a branded OTC product that will be detailed to retailers or sold through Amazon and our transactional website. • Following the sale of our commercial portfolio in 2014, we have spent great efforts to re-build our product portfolio. Since FY-19, our portfolio of commercial products has been expanding rapidly with product launches sequentially impacting on our gross revenues and financial performance. We still have several products at various stages of pre-launch and regulatory development. We expect most of these products to start contributing to our revenues over the coming year. • Our Q4-20 and FY-20 results are showing the impact of several new commercial stage products contributing to our gross revenues as compared to the prior year periods. After successfully launching Onstryv®, in Q3-19 as well as Ondansetron ODT and Benztropine in Q4-19, we successively launched Ametop™, Yondelis, and Ethacrynate Sodium in the US during teh last portion of FY-20. • Our gross revenues are indicative of gross sales volume prior to taking into account various adjustments and deductions. (See comments re Sales Adjustments & Deductions below)	
	• Gross revenues for Q4-20 increased by 52% to $2,501 from $1,644 in Q4-19. The $857 variance results from the addition of new products such as Ametop, Yondelis, and nominal contribution from Sodium Ethacrynate launched in the US late in Q4-20. The QoQ growth also takes into account the increase in Onstryv sales.	• FY-20 gross revenues are up 8% compared to FY-19 with a $659 positive variance. Our FY-20 results included gross revenues from several new products launched during the year, as we as full-year contribution of products launched during the course of FY-19. The impact of new products contributing to our gross revenues has been offset by the reduced contribution from Onstryv® which represented a negative YoY variance of $422 due to the strong pipeline fill that took place at launch in Q3-19. Quarterly sales of Onstryv have been growing steadily since then.

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

		• Our FY-20 results also included a greater contribution for Sodium Ethacrynate as sales were driven by a temporary product shortage experienced by competitors. • Finally, our gross revenue performance was negatively impacted by a $340 negative variance for Synacthen. Sales of Synacthen were $340 in FY-19 compared to nil in FY-20. Sales of the product stopped in Q1-19 due to a global supply shortage.
Sales Adjustments/ other Deductions ("SADs") and Gross to Net Ratio	• Sales adjustments and other deductions (SADs) to gross product revenues are either applicable to all products (early payment cash discounts, product returns), or represent specific deductions that impact individual product on a recurrent or non-recurrent basis. As an example – some of our products are subject to provincial PLAs or price adjustments while others not. For that reason, the mix of product sales will greatly influence our gross to net ratio and ultimately our profitability. • On average, the level of adjustments and other deductions to our sales should represents approximately 10-12% of our gross revenues. Due to PLAs arrangements and tender contracts with GPOs, gross revenues of both M-Eslon and Sodium Ethacrynate are subject to important price adjustments. The level of SADs is dependent on product mix and we expect the total SADs as a % of gross revenues to trend downward overtime as new products which are less subject to SADs contribute more to our topline. • See ("Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures") for Gross to Net sales ratio definition. Gross to net sales ratio is a key metric that enables management to assess the Corporation's sales performance including the profitability of our license and supply arrangements. • Gross to net ratio will vary from quarter to quarter but on average we expect our gross to net sales ratio to vary between 88-90% of gross revenues. The items impacting gross to net ratios are detailed above.	
	• SADs for Q4-20 matched historical levels at 11%, while SADs for Q4-19 were significantly higher than historical average at 24% and included several non-recurrent items. The combination of these 2 factors led to a favorable 12% variance in our gross to net revenue ratio.	• SADs for FY-20 were slightly lower than last year at 14% compared to 18% for FY-19. • FY-19 SADs included $425 worth of non-recurrent product returns for Synacthen compared to nil in FY-20. • FY-20 SADs included non-recurrent product returns for Onstryv linked to the termination of a 1-yr launch program with major retailers implemented in Q3-19. Product returns going forward are expected to be lower as a percentage of gross revenues than FY-19 and FY-20 levels, thus improving our net product revenues.
Net Product Revenues	• Same as our gross revenues, our net revenues are trending upwards due to sequential addition of new products. Net revenues also reflect the impact of recurrent and non-recurrent SADs. • After launching Ametop™ and Yondelis late in Q3-20, we launched Sodium Ethacrynate in the US late in Q4-20.	
	• Net revenues in Q4-20 increased significantly compared to Q3-19 at $2,215 vs $1,256. The 76% positive variance resulted from lower SAD between the two quarters, as well as the addition of several new products and favorable QoQ revenues from other products such as Onstryv.	• Net product revenues for FY-20 were up 14% compared to the prior year. • The increase in net revenues was mainly due to the addition of new products as well as the full year contribution of products launched during the prior year. As indicated in the Gross Revenue section, the contribution of new products was partly offset by the decrease in Onstryv sales. • We anticipate more stable growth of Onstryv® units going forward as the impact of the initial pipeline fill has been eliminated.
Cost of Sales (COGS)	• Cost of Sales varies depending on the mix of products sold and includes the supply or manufacturing price for products sold, royalties on sales as well as amortization of product rights. (See Balance Sheet highlights for commentaries on Intangible Assets). • Direct Cost of Sales as a % of gross revenues varies significantly from product to product. Branded products or products owned by Valeo will have lower COGS % than hospital-based products we commercialize for our partners. Historically, the bulk of our product sales was derived from M-Eslon which is a low margin (high COGS) product for us. As the contribution of M-Eslon to our overall revenues decreases over time from the addition of new more profitable products, we expect our COGS ratio to range between 40-60% in the future. • The impact of the amortization of product rights was $59 and $209 in Q4-20 and FY-20 compared to $50 for Q4-19 and $58 for FY-19 periods.	

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

Gross Margin $ and Gross Margin %	• As we launch new products and the commercial performance of our "Branded" product portfolio improves, we are set to see a significant expansion of our gross margin which will translate into a direct impact on our overall profitability. See comments above regarding current and projected COGS ratios per products which will drive our gross margins performance going forward.	
	• Our Gross margin ratio for Q4-20 was up significantly compared to Q4-19 at 20% compared to 11%. The 9% increase in gross margin ratio due to better revenue mix combined with the 76% increase in net sales contributed to a 210% increase in our gross margin in Q4-20 at $437 vs $141 in Q4-19. increase in the gross margin ratio during the periods.	• Despite the growth of our revenues from the addition of several new products, our gross margin and gross margin ratio declined slightly in FY-20 compared to FY-19. Onstryv contributed significant margins in 2019 following the successful launch in Q3-19 compared to a reduced contribution in FY-20 as sales did not match the prior year despite QoQ progress. Onstryv sales are now growing steadily QoQ and the impact of the strong Q3-19 pipeline fill will no longer be reflected in our comparative performance starting FY-21.
S&M expenses	• As indicated earlier, Valeo commercializes Branded products that require S&M support, as well as hospital injectable products and M-Eslon, which require limited S&M commitments. Because S&M staff costs represents the bulk of the S&M expenses, those expenses will increase as we expand our sales force to support the launch of more Branded products. S&M expenses should grow in line with our revenues.	
	• S&M expenses decreased significantly in Q4-20 compared to Q4-19 representing a $233 variance. The 33% drop was due to the reduction of promotional and other S&M activities related to Onstryv that followed its launch in Q3-19.	• FY-20 S&M expenses have increased by $113 or 6% as compared to FY-19. These results show the full impact in FY-20 of the Onstryv® salesforce which was added mid-year in FY-19 prior to the Q3-2019 launch.
G&A expenses	• Valeo's G&A expenses consist primarily of staff costs for our non-S&M management team. This includes staff costs for administration, finance and accounting, business development, legal, regulatory, quality control, pharmaco-vigilance and supply chain personnel. • G&A expenses also include IR expenses which can fluctuate significantly between quarters as the Company implements various IR initiatives. • Other than for IR spending, G&A expenses tend to remain relatively stable between quarters and the % of G&A expenses to revenues will trend downward as our revenues expand. Our G&A expenses also include the costs of operating as a public company since the listing of the Corporation's shares on the CSE in Q2-19. • Increases in IR spending during each of Q4-20 and FY-20 were partly offset by measures implemented as a result of the COVID-19 pandemic such as reduction in business development and IR travels and conferences.	
	• The level of G&A expenses was the same in Q4-20 compared to Q3-19 with a nominal $2 variance.	• G&A expenses increased by 11% between the FY-19 and FY-20 periods. The $312 increase can be attributed almost entirely to IR activities. In FY-20, IR costs included the costs such as issuing warrants and options to consultants and the cost for listing our shares on the US OTCQB market. • IR costs were also increased to support our financing activities which led to 3 successful financing aggregating $10.8 million.
Total SG&A % (of gross revenues)	• Unlike most other Canadian specialty pharmaceutical companies, Valeo prides itself for having the full infrastructure to manage all activities required to support the commercialization of its pipeline. This infrastructure includes significant fixed costs but will provide material savings overtime as our revenues scale up. Total SG&A is a good metric for assessing our performance in leveraging our infrastructure. As we add more products to our commercial portfolio, we expect our total SG&A as a % of gross revenues to drop significantly over time.	
	• The SG&A to Gross revenues ratio was 50% for Q4-20 compared to 90% Q4-19. The significant QoQ increase in revenues led to the strong reduction in SG&A % between the 2 reported quarters.	• SG&A to Gross revenues % was the same in FY-19 and FY-20 as the increase in revenues was matched by similar increase in SG&A spending.
SBC expenses	• SBC expenses represent the costs relating to the issuance of stock options to new staff and board members and the vesting of same over time.	
	• SBC expenses were $97 and $232 for each of Q4-19 and Q4-20. The $232 expense in Q4-20 was due to the issuance of options as well	• SBC expenses were $325 and $469 for each of FY-19 and FY-20. These expenses related to the issuance of options to new staff and directors as well as the vesting of a large number of outstanding staff options.

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	as the vesting a large number of outstanding staff options.	
Profit Sharing	• Profit sharing arrangements represent agreements with our partners to share net contribution from the sale of products. These arrangements led to lower transfer prices for the products (COGS) and help consider the S&M costs required to support the commercialization of these products. • We implemented our first profit sharing arrangement during FY-20 which explains the nil amounts in FY-19.	
Financial expenses	• Financial expenses reflect the capital structure of the Company and include costs for issuing interest bearing debentures in lieu of issuing shares to finance our operations. The financial expenses also capture the costs for using our operating line of credit, as well as supplier financing, other financial charges and bank fees. • Our financial expenses have increased significantly between FY-19 and FY-20 mainly because of the 2 debenture financings secured in Q2-20 and Q4-20 for $2.2M and $1.7M respectively.	
Other income	• Nominal variations between the periods. The Corporation continues to provide back-office, accounting, regulatory and other consulting services as a means of leveraging its staff's expertise.	
Net loss for the period	• Our net loss for Q4-20 decreased by 16% compared to Q4-19 at $1,176 compared to $1,394. Our Net loss for the quarter decreased as a result of the improved gross margin combined with the reduction of S&M expenses. This increase was partly offset by the increase in SBC and financial expenses.	• Our FY-20 net loss was 32% higher than the FY-19 period. The $1,146 increase was due to the respective increase in S&M, SG&A, SBC and financial expenses which were not offset by an increase of our gross margin from product revenues. (See Gross Margin explanations)
EBITDA (Loss)	• Management believes that our EBITDA (Loss) performance is more indicative of the commercial progress achieved by the Corporation as it eliminates the financial costs associated with our financial structure and the amortization of prior investments in our product portfolio such as license fees and regulatory filings. (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")	
	• EBITDA loss decreased significantly in Q4-20 compared to Q4-19. See "Net loss" section. • Considering the significant impact of SBC expenses as well as non-recurrent items, we believe that our Adjusted EBITDA is a better indicator of our performance and progress compared to prior periods – See below.	• Our EBITDA loss for FY-20 increase 11% compared to FY-19. The $371 increase over the 2 periods is mainly explained by the YoY performance of Onstryv (See Gross Margins) as well as the $144 increase in SBC expenses.
Adjusted EBITDA (L)	• (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")	
	• Our Adjusted EBITDA (Loss) improved significantly between Q4-19 and Q4-20. The 60% improvement is indicative of our current performance which has been trending favorably over the last year due to the addition of new products. See "Selected Quarterly Financial Performance". Our Adjusted EBITDA loss includes adjustments for non-recurrent write-off for intangibles (products) and inventory.	• Our Adjusted EBITDA Loss improved by 14% for FY-20 as compared to FY-19. • Adjustments are detailed in the table above.

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

Consolidated Balance Sheet Highlights

As at,	**31-Oct-20**	31-Oct-19	Change	
	$	$	*$[1]*	*%[2]*
Cash and liquidities	**2,836**	335	2,501	747%
Trade and other receivables	**1,220**	613	607	99%
Inventory	**881**	561	320	57%
Total current assets	**5,410**	1,651	3,759	228%
Intangible assets	**4,948**	3,860	1,088	28%
Total assets	**10,963**	5,807	5,156	89%
Trade accounts payable	**3,394**	3,838	(444)	-12%
Total current liabilities	**4,278**	4,477	(199)	-4%
Long-term loans	**-**	1,001	(1,001)	-100%
Convertible debentures	**1,504**	-	1,504	100%
Non-Convertible debentures	**1,463**	**-**	1,463	100%
Total liabilities	**7,894**	5,829	2,065	35%
Share capital	**15,024**	8,829	6,195	70%
Warrants	**1,333**	598	735	123%
Contributed surplus	**1,611**	592	1,019	172%
Deficit	**(14,477)**	(9,716)	(4,761)	49%

1. A positive variance represents a positive impact the balance sheet and a negative variance represents a negative impact to the balance sheet
2. Percentage change is presented in relative values

	YE-20 vs YE-19
Cash and liquidities	• Our cash balance stood at $2,836 at YE-20 as compared to $335 at YE-19 representing a 747% increase.
Trade and other receivables	• Typically our trade receivables average aging ranges between 35-40 days and tend to be collected rapidly due to the early payment cash discounts offered to clients and distributors. Early payment cash discounts are customary throughout the pharma industry and while they slightly impact our profitability, they facilitate a fast conversion of receivables into cash. • Payment terms for our VPI division (Hospital Specialty Products) are slightly longer and match the industry standard for such products. As sales of these products increase as a % of total revenues, the aging of our trade receivable will increase. • Trade and other receivables have increased between YE-19 and Q4-20 with a $607 or 99% positive variance. The increase is indicative of the commercial progress made between the 2 reported periods. Valeo launched several products during FY-20 and this led to greater monthly sales in Q4-20 as compared to Q4-19 which are reflected in our trade receivable outstanding.
Inventory	• The inventory will fluctuate between periods to reflect sales of products and the addition of new supplies required to support existing products or future product launches. Typical shelf life for pharmaceutical products is 18-36 months and for that reason, product requirements for new product launches can often last more than one year and will tend to negatively impact short term cash flows and working capital requirements. • The 57% increase between YE-19 and YE-20 results from the addition of several new commercial products during FY-20 such as Ametop Gel, Yondelis, Hesperco (launched early in Q1-21) and Sodium Ethacrynate for the US market. • Over the coming years, we expect our inventory levels to grow steadily as we add more products to our commercial portfolio. • Note that our inventory levels also reflect $207 of write-off taken during FY-20, including $106 in Q4-20.
Total current assets	• Current assets have increased $3,759 or 228% between the 2 periods mainly because of strong increase in our cash position but also due to the respective increases in our trade receivables and inventory.
Intangibles assets	• Intangible assets represent investments made in order to build our product pipeline. For assets owned by Valeo, such as Sodium Ethacrynate and Hesperco, these assets include formulation, R&D costs, regulatory and filings expenses. For other products, intangible assets include license fees to acquire product rights, regulatory fees and expenses as well as expenses to improve market access for these products. • Intangible assets are amortized using the straight-line method, over the remaining useful life of the asset (or license) starting when the product is ready for commercialization – typically when Valeo receives marketing approval and its first commercial product lot.

	• Intangible assets are tested quarterly for impairments as per IFRS Standards (IAS 38) to ensure that the recoverable value of each assets exceeds its book-value. • Between YE-19 and YE-20 our intangible assets have increased by $1,088. This increase includes license fees to acquire Yondelis and submission costs and fees for Yondelis, Ametop, sodium Ethacrynate (US), Redesca, Hesperco™ and other products. The FY-20 additions totaled $1,455 and were offset by $324 of amortization, $209 of which was applied to COGS, and $115 to G&A expenses. During the year we also took an impairment charge of $43 for products which may not be further developed or brought to market.
Total assets	• Total assets increased 89% between YE-19 and YE-20. The $5,156 increase results mainly from the $2,501 increase in cash, the $1,088 net increase in intangible assets, and the respective increases in our trade receivables and inventory.
Accounts payables	• Our accounts payables have decreased by $444 between YE-19 and YE-20 representing a 12% decrease. • Included in our trade payables at the end of Q4-20 is the $650 license payment due to Zambon ($1,000 as at YE-19) which payment has been made early in FY-21.
Total current liabilities	• Our total current liabilities have decreased slightly by $199 between YE-19 and YE-20 reflecting the reduction in accounts payable described above which was offset by the accrued interest on new debentures as well as lease liability for the adoption of the new IFRS 16 Standards for leases.
Long-term loans	• The $1,001 decrease follows the conversion of the loan secured in the last portion of FY-19 into convertible debentures in Q2-20. (See convertible debentures below)
Convertible debentures	• The Corporation issued a total of $2,178 of convertible debentures during FY-20 (Gross proceeds). The $2,178 included the conversion of $1,040 of loans secured prior to the end of FY-19, inclusive of accrued interest thereon, as well as new funds secured prior to the closing in February and March 2020. The net amount included deductions for the fair value allocation to the conversion option attached to the debentures as well as unamortized transactions costs. • During FY-20 a total of $429 of these debentures including accrued interest were converted in common shares.
Non-Convertible debentures	• During Q4-20, the Corporation secured $1,700 worth of non-convertible debentures to fund its operations as well as working capital requirements to support the launch of new products. The net amount of $1,463 includes deductions for the fair value allocation to the warrants attached to the debentures as well as unamortized transactions costs.
Total liabilities	• The $2,065 increase includes the addition of convertible and non-convertible debentures less the conversion of term loans as well as $233 of lease liability for the adoption of the IFRS 16 Lease standard and a small increase in our defined benefit obligation under our pension plan.
Share Capital	• The variance reflects the net impact for the issuance of units as well as the conversion of debentures into shares as well as the exercise of stock options and warrants.
Warrants	• The variance reflects the costs of issuing warrants less the value of warrants converted. During the year, the Corporation issued warrants as part of the Unit offering and the Non-Convertible financing as well as from the exercise of brokers units from prior financings, and as compensation to consultants performing corporate branding and marketing services.
Contributed Surplus	• $1,019 increase relates to compensation options and stock-based compensation charged during FY-20 as well as the cost for issuing options in exchange for IR services, and the issuance of convertible debentures.
Deficit	• Increase reflects the performance of the Corporation during the year – Statement of Loss

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4-20	Q3-20	**Q2-20**	**Q1-20**	**Q4-19**	Q3-19	**Q2-19**	**Q1-19**
		$	$		**$**	$	$	$
Gross Revenues	**2,501**	1,972	2,322	1,920	**1,644**	2,831	1,618	1,962
Adjustments/Deductions	**286**	482	241	236	**388**	262	637	191
Net Revenues	**2,215**	1,490	2,081	1,684	**1,256**	2,569	981	1,771
Gross to net sales ratio	***89%***	*76%*	*90%*	*88%*	***77%***	*91%*	*61%*	*90%*
Cost of Sales	**1,778**	1,363	1,586	1,362	**1,115**	1,689	863	1,509
Cost of Sales as % of Gross Revenues	***71%***	*69%*	*68%*	*71%*	***68%***	*69%*	*53%*	*77%*
Gross Margin	**437**	127	495	322	**141**	880	118	262
Gross Margin % to net sales	***20%***	*9%*	*24%*	*19%*	***11%***	*34%*	*12%*	*15%*
Expenses								
Sales and Marketing	**475**	513	516	620	**708**	335	441	527
General and Administrative	**773**	839	721	781	**771**	548	775	708
Total S&M + G&A	**1,248**	1,352	1,237	1,401	**1,479**	883	1,216	1,235
Total S&M & G&A % (of gross revenues)	*50%*	*69%*	*53%*	*73%*	***90%***	*31%*	*75%*	*63%*
Share Based Compensation	**232**	162	42	33	**97**	111	84	33
Profit Sharing	**(9)**	23	3	-	**-**	-	-	-
Financial expense	**176**	249	128	64	**10**	42	31	48
Other income	**(34)**	(44)	(53)	(68)	**(51)**	(64)	(73)	(65)
Total Expenses	**1,613**	1,742	1,357	1,430	**1,535**	972	1,258	1,251
Loss before income taxes	**(1,176)**	(1,615)	(862)	(1,108)	**(1,394)**	(92)	(1,140)	(989)
Recovery of income taxes								
Current	**-**	-	-	-	**-**	-	-	-
Net loss for the year	**(1,176)**	(1,615)	(862)	(1,108)	**(1,394)**	(92)	(1,140)	(989)
EBITDA(L)	**(880)**	(1,271)	(640)	(1,006)	**(1,303)**	(37)	(1,098)	(932)
Adjusted EBITDA (L)	**(486)**	(705)	(598)	(973)	**(1,206)**	74	(1,014)	(899)

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

Notes	**Valuable information**
Gross revenues	• Our gross revenues have increased by 27% in Q4-20 compared to Q3-20 following the launch of several new products in prior quarter such as Ametop and Yondelis late in Q3-20, and Sodium Ethacrynate in the US in Q4-20. • Looking ahead into FY-21, we have already launched Hesperco and are planning for the launch of Redesca (HC approval secured in Q1-21) as well as 3 other products that are currently in pre-launch/regulatory stage. The launch of all these products is expected to more than double our quarterly sales from our current levels.
Adjustments and Deductions to sales (SADs) & Gross to net sales ratio	• As indicated in the Q4-20 QoQ analysis, the SADs were in line with historical levels. SADs vary from quarter to quarter and the review of the last 8 quarters shows the impact of non-recurrent adjustments on our net sales. In Q2-19 our gross revenues were impacted by the large amount of product returns that took place when we stopped selling Synacthen due to a global shortage of the product. In Q3-20, the results were impacted by $145 worth of Onstryv® returns that were linked to a one-time contractual arrangement with a retailer and significant price adjustments on M-Eslon and Sodium Ethacrynate. Going forward we target gross to net ratios to trend in the 88-90% range.
Total Revenues	• After netting the SADs from our gross sales, our net sales in Q4-20 were up 49% compared to the prior Q3-20 quarter and showing the impact of all new products launch over the prior quarters. • Total revenues in Q3-19 were impacted by the strong pipeline-fill associated with the successful launch of Onstryv®. While re-ordering of Onstryv® by pharmacies has been nominal in quarters that followed the launch, we expect re-ordering to increase sequentially going forward as more patients start using our product and private/provincial reimbursement for Onstryv® improves. The anticipated listing of Onstryv® on the Quebec formularies for reimbursement will accelerate market share gains for this product. The Covid-19 pandemic did impact our ability to accelerate our sales initiatives, but we believe that Onstryv® demand will continue to trend upward from here.
Cost of Sales and Gross Margin	• Fluctuates with total revenues as well as the mix of product sold. • Except for M-Eslon, most of our products are expected to generate sales margins of 50-80%. With continued progress from Onstryv®, and other products in our commercial pipeline, we expect the relative proportion of M-

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

	Eslon sales to total sales to represent less than 25% a year from now, as compared to more than 65% for the last quarter (down from 88% in Q3-20). This should drive our gross margin % up from the current levels. • In Q3-20 and Q4-19, lower net sales combined with above average SADs materially impacted our gross margin which fell to 9% and 11% of net sales respectively. • In Q3-19, our margins increased over prior quarters due to the launch of Onstryv and the strong pipeline fill that took place at that time. • Cost of Sales also includes amortization of product rights previously capitalized as intangible assets. Such amortization starts upon the launch of the respective products. Amortization for the Onstryv® license fees stated in Q3-19 and currently represents $50 per quarter. Amortization of the Yondelis license fees started in Q4-20.
S&M expenses	• S&M expenses have remained relatively stable over the recent quarters. • Since Q3-19 S&M expenses reflect the addition of a sales team to support the launch of Onstryv®, as well as incremental promotion for our expanding product pipeline. • Our salesforce can support several new products, and this should facilitate an improvement of our net results following the addition of new branded products. Also, VPI products require nominal S&M support. • Except for Resdesca which will require significant S&M support in line with its commercial potential, most products launched in FY-20 or to be launched in FY-21 will not add material S&M expenses to our current level.
G&A expenses	• Other than IR expenses, G&A expenses represent mainly rent, legal expenses and salaries. Our G&A expenses have remained stable over the last year. Going forward, the company's administrative infrastructure can support significant growth with nominal staff additions.
Combined SG&A, and SG&A % to gross revenues	• While our SG&A % has varied due to the fluctuation in our gross revenues, the level of SG&A remained relatively stable over recent quarters post the addition of our Onstryv salesforce in Q3-19. • The low level of SG&A in Q3-19 was marked by adjustments to our capitalization policy for products at regulatory and pre-launch stage. This led to some FY-19 S&M expenses to be capitalized in Q3-19. • We foresee total SG&A (S&M and S&G expenses) to expand over the near future as we prepare ourselves for the launch of Redesca. (See "S&M and G&A comments" above)
Share-Based Compensation	• Represents the costs of issuing stock options. Fluctuation between quarters is due to the hiring of staff and addition of Board members as well as the vesting associated with issued options. The issuance of a large number of options to staff in Q3-20 impacted the SBC expenses for that quarter and the vesting of a large number of outstanding options has increased SBC expenses in Q4-20.
Profit Sharing	• Starting Q2-20 the company started accruing and paying amounts under profit-sharing arrangements. Such arrangements are meant to reduce the transfer price to be paid by Valeo and have the licensee and licensor share the commercial success of the products.
Financial expenses	• Our financial expenses fluctuate between quarters depending on the level of short term and long-term borrowing required to fund our operations. • The addition of convertible debentures in February and March 2020, as well as the non-convertible debentures in July 2020 has led to a sequential quarterly increase in our financial expense since the start of FY-20. Q3-20 Financial expenses also included increased use of our operating line of credit and arrangements with a few suppliers. • The financial expenses in Q4-19 were relatively low following the closing of a $3.1 million public offering prior to the end of the preceding quarter. Concurrent to the public offering outstanding loans and long-term loans were converted into units, and therefore eliminating an interest-bearing liability.
Other (Income) expenses	• Fluctuates between periods based on the level of services rendered. The Corporation continues to provide back-office, regulatory and other consulting services as a mean of leveraging its staff's expertise.
Net loss	• Our net loss in Q4-20 was 27% lower than the prior quarter. • We believe that in order to eliminate the impact of our debentures and several non-cash items, that the EBITDA (L) and Adjusted EBITDA(L) metrics to be more representative of our quarterly performance. (See EBITDA (L) and Adjusted EBITDA (L) below.) • Except for Q3-19 when our results were impacted by the successful launch of Onstryv®, our quarterly net loss has been relatively stable during the previous reported periods despite the addition of staff and expenses to support the Company's growth initiatives. • Considering our stable overhead (See "S&M, G&A comments" above) which translates into an ability to leverage our existing cost structure, we expect our net loss to reduce significantly over the coming quarters as we add revenues from the launch of new products and secure incremental market share for products already on the market.
EBITDA (L)	• EBITDA Loss (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures") eliminates the impact of the CDU, ITC and other financings which reflect the Corporation's financing strategy adopted to attract the required capital to fund its operations. • Over the last 2 quarters our EBITDA results have been impacted a large SBC expenses which were linked mainly to Covid-19 staff retention measures.

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

	• Similar to our net operating loss, our EBITDA loss has been impacted by the S&M staff addition required to support the launch of products over the last year, as well as the product mix, the large non-recurrent expenses – See Adjusted EBITDA (L) . • We expect new products, including Hesperco and Redesca (planned launch in FY-21) to have transformational impact on our profitability.
Adjusted EBITDA (L)	• Our Adjusted EBITDA (L) is a much better indicator of our progress over the last year. • Our Adjusted EBITDA loss has decreased 31% from Q3-20 to $486 compared to $705 and showing a favorable trend over the last year. • Similar to our net loss and EBITDA (L), our Adjusted EBITDA performance will trend upward over the coming quarters as new products contribute to our revenues and gross margins. Most of the new products recently added and to be added in the coming year (except for Redesca) will require nominal SG&A. We expect a large portion of the additional gross margins to translate into incremental net margins, hence contributing to reduce/eliminate our Adjusted EBITDA loss.

LIQUIDITIES AND CAPITAL RESSOURCES

	For the twelve months ended		Change	
	31-Oct-20	31-Oct-19	*$[1]*	*%[2]*
Net loss from operations	**(4,761)**	(3,615)	*(1,146)*	*32%*
Other Items not affecting cash	**1,702**	664	*1,038*	*156%*
Changes in non-cash working capital	**(2,239)**	644	*(2,883)*	*-448%*
Cash used in operations	**(5,298)**	(2,307)	*(2,991)*	*130%*
Investing activities				
Cash (used) provided by investing activities	**(1,405)**	(923)	*(482)*	*52%*
Financing Activities				
Cash provided by financing activities	**9,207**	3,553	*5,654*	*159%*
Foreign exchange loss (gain) on cash	**(3)**	1	*(4)*	*-400%*
Increase (decrease) in cash	**2,501**	324	*2,177*	*672%*
Cash, beginning of the period	**335**	11	*324*	*2945%*
Cash, end of period	**2,836**	335	*2,501*	*747%*

1. A positive variance represents a positive impact on net cash flows and a negative variance represents a negative impact on net cash flows
2. Percentage change is presented in relative values

	FY-20 vs FY-19
Cash used in operations	• Cash used in operations represents cash flows from operations, excluding income and expenses not affecting cash. • Cash used in operations for the period excluding the change in non-cash working capital and representing mainly our net loss was $4,761 in FY-20 compared to $3,615 for the FY-19 representing a 32% increase. (See Consolidated Statement of Loss discussion) • Other items not affecting cash have increased by 156% from $664 in FY-19 to $1,702 for FY-20. This variance is mainly due to the increase in amortization and depreciation charges between the 2 periods, share-based compensation, interest accrued on debentures, and consulting fees paid by way of issuance of warrants and options. • Changes in non-cash working capital components used $2,239 of cash in FY-20 compared to generating $644 of cash in FY-19 for a total $2,883 difference in use of cash. The strong increase in our receivable and inventory, as well as reduction in our trade payable led to the negative change in non-cash working capital.
Cash used in investing activities	• Cash used by investing activities to acquire intangible assets during the period was $1,405 in FY-20 as compared to $923 for FY-19, an increase of 52% and included the license cost for acquiring rights to Yondelis as well as regulatory and market access activities mainly related to Redesca. • Valeo carries many initiatives aimed at increasing the value of its licensed product portfolio, including 1) activities related to several product filings and interaction with HC, 2) in-licensing activities, as well as 3) activities for securing the listing and reimbursement of its approved products. We expect those activities to vary from quarter to quarter but to continue over the next few years.
Cash provided by financing activities	• During FY-20, Valeo secured funds from 3 different financings. Financing activities provided net cash of $9,207. During FY-20, we issued convertible debentures for $1,138, non-convertible debentures for $1,700 as well as secured $6,900 from the issuance of units. A total of $783 was paid in connection with the above mentioned financings. Finally, we secured $344 during FY-20 from the exercise of warrants and options.

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

	• During FY-19 we secured $3,553 from various financings, including $900 of new debentures which were converted upon the listing of the Corporation's shares on the CSE in February 2020 and $3.1 million from the issuance of units, less the repayment of our operating loan for $850 and units and share issue costs.
Cash, end of the period	• Cash at the end of FY-20 was $2,836 compared to $335 at the end of FY-19 representing a $2,501 increase.

Liquidity and Capital Resources

Going Concern

This MD&A has been prepared on a going-concern basis, which implies that the Corporation will continue realizing its assets and discharging liabilities in the normal course of business for the foreseeable future. As reflected in the annual audited financial statements, the Company is in the process of ramping up its activities and has not yet achieved profitability. During the fiscal year ended on October 31, 2020, the Company incurred a net loss of $4,761, used cash in operations of $5,298. Its working capital stood at $1,132 at the end of the period. This raises significant doubt about the Company's ability to continue as a going concern.

Accordingly, the ability of the Corporation to realize the carrying value of its assets and continue operations as a going concern is dependent upon its ability to obtain additional financing and ultimately on generating future profitable operations. Management anticipates that the commercialization of new products will provide incremental cash flow that could contribute to working capital requirements. There are no assurances that any of these initiatives will be successful. Factors within and outside the Corporation's control could have a significant bearing on its ability to obtain additional financing or on the generation of additional revenues.

These quarterly consolidated financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should the Corporation be unable to continue as a going concern.

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

Liquidities

As at,	**31-Oct-20**	31-Oct-19	Change	
	$	$	*$[1]*	*%[2]*
Cash	**2,836**	335	2,501	747%
Trade and other receivables	**1,220**	613	607	99%
inventory	**881**	561	320	57%
Trade accounts payables	**3,394**	3,838	(444)	-12%
Working Capital	**1,132**	**(2,826)**	*3,958*	*-140%*

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

Following a series of successful financing in FY-20 we have secured additional capital to strengthen our balance sheet and cash position. Our working capital has improved from a deficit of $2,826 to a surplus of $1,132. The proceeds from the various financings secured in FY-20 have been used to reduce our trade payables and provide liquidities to support working capital requirements necessary to support the launch of new products and fund the corporation until it generates positive cash flows from operations.

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

As funding requirements to acquire product rights vary widely depending upon the nature and potential of the product and the in-licensing agreement, the Corporation intends to seek funding on a project-by-project basis. Funding requirements for products under discussion vary from $ nil to $10 million. The Corporation anticipates that the commencement of additional product distribution agreements and other revenue contracts will provide significant incremental cash flow that will contribute to working capital requirements.

Also, the Corporation's recent initiatives related to product acquisition rights and regulatory filings have and will continue to drive a series

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of product launches over the coming quarters that will contribute meaningful incremental operating cash flows. In addition to the launch of Onstryv®, Ondansetron ODT and Benztropine in FY-19, the Corporation has launched Ametop, Yondelis and Sodium Ethacrynate via a US distributor in FY-20. Valeo plans launch five more products in FY-21, including Hesperco (launched in Q1-21) and Redesca in the first half of FY-21. Redesca is expected to materially impact both the Corporation's product revenues as well as the Corporation's gross margin, and consequently reduce and possibly eliminate the need for further financings to fund our operations.

Transactions with Related Parties

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

	Three months ended		Twelve months ended	
	Oct 31, 2020	Oct 31, 2019	**Oct 31, 2020**	Oct 31, 2019
Key management salary and benefits	**163**	167	**822**	789
Directors and employee stock option compensation	**232**	97	**468**	325
Consulting fee paid to a company controlled by an officer	**38**	61	**158**	196

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

	Oct 31, 2020	Oct 31, 2019
Compensation owed to a person who is an officer	**-**	30
Consulting fees owed to a company controlled by an officer	**9**	10
Expenses owed to a consultant and incurred in the normal course of business	**7**	1
Convertible debentures owed to key management and directors	**219**	-
Non-convertible debentures owed to key management and directors	**202**	-
Accrued interest on Convertible debentures owed to key management and directors	**5**	-
Accrued interest on non-convertible debentures owed to key management and directors	**9**	-
Non-convertible debenture owed to Manitex, a shareholder of the Corporation	**15**	-
Accrued interest on non-convertible debenture owed to Manitex, a shareholder of the Corporation	**1**	-

Off balance sheet arrangements

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

Risk Management

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

(a) Market risk

(i) Currency risk

The Corporation is exposed to financial risks that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. Valeo has an investment in a U.S. subsidiary however this subsidiary is currently not active. The Corporation also holds cash denominated in US dollars and accounts payable and accrued liabilities denominated various currencies. The Corporation does not hold financial derivatives to manage the fluctuation of these risks. As at July 31, 2020 and October 31, 2019, a 5% increase/decrease in the USD/CDN or EUR/CDN exchange rates would not have a material impact on net loss or equity. Other comprehensive income would not have been materially impacted in either of the above two situations.

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

	October 31, 2020		October 31, 2019	
	Foreign Currency	**CDN equivalent**	Foreign Currency	CDN equivalent
Cash – USD	**203**	**271**	4	5
Accounts payable and accrued liabilities – USD	**255**	**340**	147	193
Accounts payable and accrued liabilities – EUR	**45**	**71**	-	-
Accounts payable and accrued liabilities – AUD	**-**	**-**	44	40

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

(ii) Cash flow and fair value interest rate risk

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

(b) Credit Risk

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

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

(c) Liquidity Risk

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

	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Accounts payable and accrued liabilities	**3,479**	77	557	-	**4,113**
Accrued interest on debentures	**-**	65	38	-	**103**
Provision for product returns	**-**	-	103	-	**103**
Lease liability	**5**	10	47	233	**295**
Convertible debentures	**-**	-	-	1,504	**1,504**
Non-convertible debentures	**-**	-	-	1,463	**1,463**
	3,484	152	745	3,200	**7,581**

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

(d) Specific Risks

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

Management of Capital

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

Going forward, the Corporation will continue to monitor the growth of its internally generated cash flows, and look to compensate any shortfall by issuing shares or units, and if required by securing new debt from its existing shareholders and/or third party lenders. As at October 31, 2020 the Corporation is not subject to any externally imposed capital requirements.

RECENTLY ADOPTED ACCOUNTING POLICIES

IFRS 16 Leases

In January 2016, the IASB released IFRS 16 "Leases" replacing IAS 17 "Leases" and related interpretations. The new standard eliminates the classification of leases as either operating or finance leases for lessees and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value (less than $5). IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Corporation has adopted IFRS 16, effective November 1, 2019, using the modified

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

retrospective approach and has not restated prior periods for the impact of IFRS 16. Comparative information is still reported under IAS 17 and IFRIC 4.

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

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

The impact on transition is summarized below:

	November 1, 2019
Recognition of right of use assets	**347**
Recognition of lease liabilities	**347**

Statement of Compliance

The audited financial statements included in this MD&A for the year ended on October 31, 2020 have been prepared in accordance with *International Financial Reporting Standards* as issued by the *International Accounting Standards Board ("IASB")* as well as with those standards and interpretations as issued by the *International Financial Reporting Interpretations Committee ("IFRIC")* issued and effective or issued and early adopted as at the time of preparing these statements.

Use of Estimates and Judgements

Reference should be made to the Corporation's audited 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.

Consolidated Financial Statements

Valeo Pharma Inc.

October 31, 2020

Management's Responsibility

To the Shareholders of Valeo Pharma Inc.,

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

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

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

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

February 24, 2021

"Steven Saviuk"
_____
Chief Executive Officer

"Luc Mainville"
_____
Chief Financial Officer

Independent auditor's report

To the Shareholders of Valeo Pharma Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Valeo Pharma Inc. and its subsidiaries (together, the Company) as at October 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at October 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity (deficit) for the years then ended;
- the consolidated statements of cash flow for the years then ended; and
- the notes to consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

Material uncertainty related to going concern

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

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
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Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

\s\PricewaterhouseCoopers LLP

Québec, Quebec
February 24, 2021

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

Valeo Pharma Inc.

Consolidated Statements of Financial Position

(All in thousands of Canadian dollars)

As at October 31,	Notes	2020	2019
ASSETS			
Current			
Cash		**2,836**	335
Trade and other receivables	*4*	**1,220**	613
Inventory	*5*	**881**	561
Prepaid expenses and deposits		**473**	142
Total current assets		**5,410**	1,651
Property and equipment	*6*	**327**	296
Right of use asset	*7*	**278**	-
Intangible assets	*8*	**4,948**	3,860
Total assets		**10,963**	5,807
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current			
Trade accounts payables	*10*	**3,394**	3,838
Other accounts payable and accrued liabilities	*10*	**616**	539
Accrued interest on debentures		**103**	-
Provision for product returns	*11*	**103**	100
Lease liability	*13*	**62**	-
Total current liabilities		**4,278**	4,477
Long-term loans	*12*	**-**	1,001
Convertible debentures	*14*	**1,504**	-
Non-convertible debenture	*15*	**1,463**	-
Lease liability	*13*	**233**	-
Defined benefit obligation	*17*	**416**	351
Total liabilities		**7,894**	5,829
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	*18*	**15,024**	8,829
Warrants	*18*	**1,333**	598
Contributed surplus		**1,611**	592
Deficit		**(14,477)**	(9,716)
Accumulated other comprehensive loss		**(422)**	(325)
Total shareholders' equity (deficit)		**3,069**	(22)
Total liabilities and shareholders' equity (deficit)		**10,963**	5,807

Going concern (note 1); Related Party Transactions (note 26); Commitments (note 29); Subsequent events (note 30)

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

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

Valeo Pharma Inc.

Consolidated Statements of Loss and Comprehensive Loss

(All amounts in thousands of Canadian dollars, except for share and per share amounts)
For the years ended October 31, 2020 and 2019

	Notes	**2020**	2019
Revenues		**7,470**	6,577
Cost of Goods Sold		**6,089**	5,176
Gross Profit		**1,381**	1,401
Expenses			
Sales and marketing	*21*	**2,124**	2,011
General and administrative	*22*	**3,114**	2,802
Share based compensation	*18*	**469**	325
Profit sharing		**17**	-
Financial	*23*	**617**	131
Other income	*24*	**(199)**	(253)
Total		**6,142**	5,016
Net loss before income taxes		**(4,761)**	(3,615)
Net loss for the year		**(4,761)**	(3,615)
Other comprehensive loss			
Exchange differences on translating foreign operations		**(2)**	-
Defined benefit plan, net actuarial loss		**(95)**	(133)
Total comprehensive loss		**(4,858)**	(3,748)
Loss per share:			
Basic and diluted	19	**(0.08)**	(0.07)
Weighted average number of shares outstanding		**57,909,242**	49,588,556

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

Valeo Pharma Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

(All amounts in thousands of Canadian dollars)

For the years ended October 31, 2020 and 2019

		Share Capital				Accumulated Other Comprehensive Loss		
	Notes	Common Shares	Warrants	Deficit	Contributed surplus	Defined benefit plan	Foreign exchange translation	Total
Balance as at October 31, 2018		4,659	-	(6,101)	267	(159)	(33)	(1,367)
Net loss				(3,615)	-	-	-	(3,615)
Other comprehensive loss		-	-	-	-	(133)	-	(133)
Share based compensation		-	-	-	325	-	-	325
Conversion of debentures to shares		1,427	-	-	-	-	-	(1,427)
Conversion of loans to shares		815	167	-	-	-	-	982
Issuance of units		2,583	529	-	-	-	-	3,112
Unit issue costs		(655)	(98)	-	-	-	-	(753)
Balance as at October 31, 2019		8,829	598	(9,716)	592	(292)	(33)	(22)
Net loss		**-**	**-**	**(4,761)**	**-**	**-**	**-**	**(4,761)**
Other comprehensive loss		**-**	**-**	**-**	**-**	**(95)**	**(2)**	**(97)**
Share based compensation	*18*	**-**	**-**	**-**	**469**	**-**	**-**	**469**
Stock options exercised		**76**	**-**	**-**	**(21)**	**-**	**-**	**55**
Units Issued	*18*	**6,359**	**541**	**-**	**-**	**-**	**-**	**6,900**
Unit issue costs	*18*	**(814)**	**(69)**	**-**	**-**	**-**	**-**	**(883)**
Convertible debentures issued	*14*	**-**	**-**	**-**	**367**	**-**	**-**	**367**
Cost of convertible debentures issued	*14*	**(7)**	**-**	**-**	**-**	**-**	**-**	**(7)**
Conversion of debentures to shares	*18*	**429**	**-**	**-**	**(67)**	**-**	**-**	**362**
Non-convertible debentures issued		**-**	**208**	**-**	**-**	**-**	**-**	**208**
Compensation options issued		**(178)**	**(26)**	**-**	**204**	**-**	**-**	**-**
Compensation options exercised		**23**	**6**	**-**	**(9)**	**-**	**-**	**20**
Equity instruments issued to consultants		**-**	**113**	**-**	**76**	**-**	**-**	**189**
Warrants exercised		**307**	**(38)**	**-**	**-**	**-**	**-**	**269**
Balance as at October 31, 2020		**15,024**	**1,333**	**(14,477)**	**1,611**	**(387)**	**(35)**	**3,069**

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

Valeo Pharma Inc.

Consolidated Statements of Cash Flow

(All amounts in thousands of Canadian dollars)
For the years ended October 31, 2020 and 2019

	Notes	**2020**	2019
OPERATING ACTIVITIES:			
Net loss from operations		**(4,761)**	(3,615)
Add (deduct) items not affecting cash:			
Depreciation of property and equipment	6	**31**	39
Depreciation of right of use asset	7	**69**	-
Amortization of intangible assets	8	**324**	96
Impairment of intangible assets	8	**43**	
Provision for sales returns	11	**103**	100
Share based compensation	18	**469**	325
Interest expense		**414**	74
Consulting fees paid by issuance of equity instruments		**189**	-
Share issue costs		**-**	21
Defined benefit pension expense		**10**	9
Unrealized loss on foreign exchange		**3**	24
Payment of interest on debentures and short-term debt		**(106)**	(5)
Write down of inventory		**205**	-
Funding of defined benefit plan		**(52)**	(20)
Net change in non-cash operating working capital	20	**(2,239)**	645
Cash used by operating activities		**(5,298)**	(2,307)
INVESTING ACTIVITIES:			
Acquisition of property and equipment		**(62)**	(25)
Acquisition of intangible assets		**(1,343)**	(920)
Reimbursement of acquisition costs of intangible assets		**-**	22
Cash used by investing activities		**(1,405)**	(923)
FINANCING ACTIVITIES:			
Decrease in operating loan		**-**	(850)
Increase in loans from shareholders		**-**	1,900
Repayment of debt		**-**	(97)
Convertible debentures issued	14	**1,138**	-
Payment of financing fees		**(783)**	(513)
Non-convertible debentures issued	15	**1,700**	-
Issuance of units		**6,900**	3,113
Issuance of shares		**344**	-
Payment of lease costs		**(92)**	-
Cash provided by financing activities		**9,207**	3,553
Foreign exchange loss (gain) on cash		**(3)**	1
Increase in cash		**2,501**	324
Cash, beginning of year		**335**	11
Cash, end of year		**2,836**	335

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

1. Presentation of Financial Statements and Going Concern

Description of the Business

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

The Corporation is incorporated under the Canada Business Corporations Act and its shares and warrants are listed on the Canadian Stock Exchange ("CSE") under the symbol VPH, VPH.WT and VPH.WT.A. The Corporation's shares are also listed on the Frankfurt Stock Exchange ("FSE") under the symbol VP2 and on the OTCQB market under the symbol VPHIF.

Statement of Compliance

These consolidated financial statements of the Corporation for the year ended October 31, 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared in accordance with those IFRS standards and interpretations of the International Financial Reporting Interpretations Committee issued and effective or issued and early adopted as at the time of preparing these statements.

The policies set out below have been consistently applied to all the periods presented except for IFRS 16 applied using the modified retrospective approach.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on February 24, 2021.

Going Concern

These consolidated financial statements have been prepared on a going-concern basis, which implies that the Corporation will continue realizing its assets and discharging its liabilities in the normal course of business for the foreseeable future. As reflected in the consolidated financial statements, the Corporation is in the process of ramping up its activities and has not yet achieved profitability. During the year ended October 31, 2020, the Corporation incurred a net loss of $4,761 (2019 – $3,615) and used cash in operations of $5,298 (2019 – $2,307). As at October 31, 2020, the Corporation had working capital of $1,132 (2019 – ($2,826)). This raises material uncertainties that may cast significant doubt about the Corporation's ability to continue as a going concern.

Accordingly, the ability of the Corporation to realize the carrying value of its assets and continue operations as a going concern is dependent upon its ability to obtain additional financing and ultimately on generating future profitable operations. Management anticipates that the generation of additional revenues out of its existing products and the commercialization of new products will enable the Corporation to achieve profitability. There is no assurance that any of these initiatives will be successful. Factors within and outside the Corporation's control could have a significant bearing on its ability to obtain additional financing or on the generation of additional revenues.

These consolidated financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should the Corporation be unable to continue as a going concern. Such adjustments could be material.

Covid-19

An outbreak of a novel strain of coronavirus, identified as "COVID-19", was declared a global pandemic by the World Health Organization on March 11, 2020. In response, many countries have required entities to limit or suspend business operations and implemented travel restrictions and quarantine measures. These measures have disrupted the activities of many entities and have led to significant volatility in the global markets.

The Corporation's business may be negatively impacted by the COVID-19 pandemic, which has created, and continues to create, significant societal and economic disruptions. Since mid-March, the Corporation and its employees have been observing social distancing practices and working from home where possible, consistent with local public health requirements and official closures.

The changing and rapidly-evolving effects of the COVID-19 pandemic – the duration, extent and severity of which are currently unknown – on investors, businesses, the economy, government bodies, society and the financial markets could, among other things, add volatility to the global stock markets and change interest rate environments.

The COVID-19 pandemic and measures to prevent its spread may negatively impact the Corporation, its customers, counterparties, employees, third-party service providers and other stakeholders, as applicable, in a number of ways, including, but not limited to, by: (i) adversely affecting the business operations of the Corporation, including access to its products by patients, the Corporation's planned

sales and marketing processes for its approved products and the Corporation's ability to source, evaluate and pursue acquisition opportunities; (ii) disrupting the Corporation's supply chain, including the manufacture and/or delivery of its products by third-party manufacturers on which the Corporation relies; (iii) adversely affecting local, national or international economies and employment levels; (iv) causing business interruptions, including as a result of steps taken by the Corporation in compliance with government recommendations and orders, such as requiring employee to work remotely, which may cause strain on such existing resources as information technology systems, and suspension of all non-essential travel; (v) disrupting public and private infrastructure, including communications and financial services, which could disrupt the Corporation's normal business operations; (vi) adversely affecting the Corporation's ability to comply with the covenants in its credit facility or requiring modifications to such covenants, for which there can be no assurance that such modifications would be provided; (vii) disrupting health care delivery; (viii) disrupting operations at Health Canada, which may result in delays in reviews and approvals, including with respect to products for which the Corporation has made or may make new drug submissions; (ix) disrupting operations at public or private payors and related agencies, such as CADTH, PMPRB, pCPA, which may result in delays in gaining access or reimbursement with respect to products for which the Corporation has made or may make submissions. At this point, the extent to which the COVID-19 pandemic will or may impact the Corporation is uncertain and these factors are beyond the Corporation's control; however, any of these events, in isolation or in combination, could have a material adverse effect on the Corporation's business, results of operations and financial condition and the market price of the Corporation's securities.

2. Summary of Significant Accounting Policies

Basis of consolidation

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

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

Basis of measurement

These consolidated financial statements have been prepared on a going-concern basis, under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. This implies that the Corporation will continue realizing assets and discharging liabilities in the normal course of business for the foreseeable future. Should the going concern assumption not continue to be appropriate for the Corporation, further adjustments to carrying values of assets and liabilities may be required.

Functional and Presentation Currency

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

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

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

Recently adopted accounting policies

IFRS 16, Leases

In January 2016, the IASB released IFRS 16 "Leases" replacing IAS 17 "Leases" and related interpretations. The new standard eliminates the classification of leases as either operating or finance leases for lessees and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value (less than $5 CAD). IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Corporation has adopted IFRS 16, effective November 1, 2019, using the modified retrospective approach and has not restated prior periods for the impact of IFRS 16. Comparative information is still reported under IAS 17 and IFRIC 4.

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

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 12%. The Corporation quantified the impact of IFRS 16 adoption on the fiscal 2020 opening balance sheet. On transition to IFRS 16, the Corporation recognized right-of-use assets and lease liabilities. This non-cash adjustment has been excluded from the Statement of Cash Flows.

The impact on transition is summarized below:

	November 1, 2019
Recognition of right of use assets	**347**
Recognition of lease liabilities	**347**

Accounting policy applicable from November 1, 2019

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

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

For exceptions, such as short-term leases and leases of low-value assets using the right-of-use asset and lease liability are not recognized in the Corporation's statements of financial position. Payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Accounting policy applicable before November 1, 2019

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

Revenue Recognition

The Corporation records revenue from contracts with customers in accordance with the five steps outlined in IFRS 15 as follow: (i) Identify the contract with a customer; (ii) Identify the performance obligation in the contract; (iii) Determine the transaction price, which is the total consideration provided by the customer; (iv) Allocate the transaction price among the performance obligations in the contract based on their relative fair values and (v) Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

Revenue consists of gross revenue less product returns, price adjustments and cash discounts.

Service Income

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

Cash and cash equivalents

The Corporation considers all investments with maturities of three months or less from the acquisition date, that are highly liquid and readily convertible into cash, to be cash equivalents. As at October 31, 2020, the Corporation held a short-term deposit of $2,000 (2019 – Nil).

Inventory

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

Property and Equipment

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

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

Intangible Assets

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

Expenditures incurred for preparing and filing a regulatory submission for a product are also capitalized when the criteria for recognizing an asset are met, usually when approval is considered highly probable, i.e. that approval of a marketing authorization from the Canadian or United States health authorities will be granted. Separately acquired licenses are recorded at cost less accumulated amortization and any accumulated impairment charges. These assets are amortized over the terms of their respective licenses being up to 10 years. These costs will be amortized over the estimated life of the product once commercialization has occurred.

Impairment of Non-Financial Assets

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

Intangible assets with indefinite life are tested annually; property and equipment, as well as intangible assets with a defined useful life are tested for impairment whenever there is an indication that the carrying amount of the asset or the CGU to which an asset has been allocated exceeds its recoverable amount. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the recoverable amount of the asset. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognized.

The reversal of impairment losses is limited to the amount that would bring the carrying value of the asset to the amount that would have been recorded, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of profit or loss in the same line item where the original impairment was recognized. Impairments of goodwill are not reversed. Intangible assets not yet available for use are reviewed for impairment at least annually or more frequently if circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that the asset might be impaired.

Income Taxes

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

Current Tax

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

Deferred Tax

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

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized. Deferred tax asset and liability differences are recognized directly in income, other comprehensive loss or equity based on the classification of the item to which they relate. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its tax assets and liabilities on a net basis.

Sales Tax

Revenues, expenses and assets are recognized net of sales tax except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized in the cost of acquisition of the asset or as part of the expense item, as applicable. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or accounts payable and accrued liabilities in the consolidated statement of financial position.

Provisions

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

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

Financial Instruments

All financial instruments, including derivatives, are included in the statement of financial position and are initially measured at fair market value. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications.

Amortized cost financial assets are initially measured at fair value and amortized using the effective interest method. Fair value through profit or loss ("FVTPL") assets are measured at fair value and subsequent changes are recognized in current period net income. Fair value through other comprehensive income ("FVTOCI") financial assets are measured at fair value with subsequent gains or losses included in other comprehensive income until the asset is removed from the statements of financial position.

The following summarizes the Corporation's classification and measurement of financial assets and liabilities as at October 31:

	Measurement
Financial asset:	
Cash	Amortized cost
Trade and other receivables	Amortized cost
Financial liabilities:	
Accounts payable and accrued liabilities	Amortized cost
Accrued interest on debenture	Amortized cost
Lease liability	Amortized cost
Convertible debentures	Amortized cost
Non-convertible debentures	Amortized cost

The initial carrying amount of a compound financial instrument, i.e., an instrument that comprises a liability and an equity component, is allocated using the residual value method. Under the residual value method, the Corporation first determines the fair value of the liability component, and the residual amount is allocated to the equity component.

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.

Share based compensation

The Corporation grants equity settled stock options to certain directors, officers, consultants and employees. Each tranche in an award is considered a separate award with its own vesting period and fair value. The fair value of each tranche is determined at the date of grant using the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Corporation's common stock and an expected life of the stock-based instruments. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately to the statement of profit or loss with an

offsetting credit to contributed surplus, except for warrants granted as consideration for share issuance costs which are charged to share capital and warrants or options granted in lieu of payment to suppliers which are charged to the relevant expense item.

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

Employee Benefits

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

- defined benefit obligations are determined from actuarial calculations using the projected benefit method pro-rated on service up to June 30, 2005 and management's best estimate of salary escalations and retirement ages of employees.
- for the purpose of calculating the estimated rate of return on plan assets, assets are measured at fair value.
- actuarial gains or losses arise from the difference between the effective yield of plan assets for a period and the expected yield on plan assets for the period, from changes in actuarial assumptions used to determine defined benefit obligations and from emerging experience that differs from the selected assumptions. Actuarial gains or losses are recognized under other comprehensive income in the period in which they occur and will not be reclassified subsequently to net loss.
- net interest is recognized in net earnings calculated using the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds.
- defined benefit plan assets or liabilities recognized in the statement of financial position correspond to the difference between the present value of defined benefit obligations and the fair value of plan assets.

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

Earning per Share

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

3. Use of Estimates and Judgements

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

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

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

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

Intangible assets

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

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

Defined benefit plan

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

Revenue recognition

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

Share-based payments

The Corporation measures the cost of equity share-based payments, by reference to the fair value of the equity instrument or underlying equity instrument at the date on which they are granted. Estimating fair value for share-based payments requires management to determine the most appropriate valuation model for a grant, which is dependent on the terms and conditions of each grant. In valuing certain types of share-based payments, such as incentive stock options and warrants, the Corporation uses the Black-Scholes option pricing model for the valuation of stock options and the Monte-Carlo model for the valuation of warrants. Several assumptions are used in the underlying calculation of fair values of the Corporation's stock options and warrants, including the expected life of the option/warrant, stock price volatility and forfeiture rates. Details of the assumptions used are included in Note 18.

b) The following areas require management's critical judgement:

Intangible assets

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

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

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

Principal vs agent

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

4. Trade and Other Receivables

	October 31, 2020	October 31, 2019
Trade receivables	**1,009**	381
Receivable from a related party	**89**	105
Receivables from others	**-**	67
Sales taxes receivable	**122**	60
	1,220	613

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

5. Inventory

	October 31, 2020	October 31, 2019
Finished goods	**873**	479
Active ingredients	**8**	82
	881	561

During the year ended October 31, 2020, total inventory of $5,704 (2019 - $4,891) was recognized as cost of goods sold including an increase in inventory provision for active ingredients of $63 (2019 – nil) and write-off of expired finished goods of $142 (2019 – nil).

6. Property and Equipment

	Leasehold improvements	**Computer equipment**	**Equipment and furniture**	**Security Vault**	**Total**
Cost as at October 31, 2019	110	284	182	196	772
Additions	-	9	53	-	62
Cost as at October 31, 2020	**110**	**293**	**235**	**196**	**834**
Accumulated depreciation as at October 31, 2019	80	233	125	38	476
Depreciation	4	15	6	6	31
Accumulated depreciation as at October 31, 2020	**84**	**248**	**131**	**44**	**507**
Net carrying value October 31, 2020	**26**	**45**	**104**	**152**	**327**

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

7. Right of Use Asset

	Cost	**Accumulated Amortization**	**Carrying Value**
Balance as at November 1, 2019, on adoption of IFRS 16	347	-	347
Additions	-	(69)	(69)
Balance as at October 31, 2020	**347**	**(69)**	**278**

8. Intangible Assets

	Submission costs	**License fee**	**Total**
Balance as at October 31, 2019	1,880	1,980	3,860
Additions	1,029	426	1,455
Impairments	(43)	-	(43)
Amortization	(115)	(209)	(324)
Balance as at October 31, 2020	**2,751**	**2,197**	**4,948**

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

8. Intangible Assets – *Cont'd*

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

On January 21, 2020, The Corporation entered into a licensing agreement with PharmaMar for the exclusive rights to commercialize Yondelis® (trabectedin), a novel marine-derived antitumor agent. The Corporation paid an upfront fee of $364 and is further obligated to pay additional milestones upon provincial reimbursement approval. Amortization of licensing fees has been recognized following Health Canada's approval of the transfer of commercial rights of Yondelis to Valeo and upon the commencement of commercial activities of the product and charged to cost of sales. Amortization began in the fourth quarter of fiscal 2020.

On October 19, 2020, the corporation paid $62 upon receipt of Health Canada approval for Amikacin.

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

9. Operating Loan

On April 24, 2020, the Corporation amended its revolving demand credit facility with its present lender. At all times, borrowed amounts under the facility will not exceed the lesser of $2,000 and the total of (a) assigned credit balances for the Corporation plus (b) 80% of Canadian and US based accounts receivables (85% for investment grade receivables) of the Corporation net of over 90 day accounts, contra accounts, related accounts and all other accounts not valued by the lender plus (c) 50% of the inventory value up to a maximum of $500.

The lender will make the facility available by way of prime rate-based loans in CAD$, United States base rate ("USBR") loans in USD$ and stand-by letters of guarantee in CAD$. The interest rates for prime based loans are prime rate plus 0.75% per annum; and USBR plus 0.75% per annum for USBR loans. For letters of guarantee the rate applicable will be that set out in the letter of credit indemnity agreement applicable to the issued letter of guarantee.

As at October 31, 2020 and 2019, the operating loan was unused.

10. Accounts Payable and Accrued Liabilities

	October 31, 2020	October 31, 2019
Trade accounts payable	**3,381**	3,838
Payables to related parties *(i)*	**16**	41
Other accounts payable and accrued liabilities	**613**	498
	4,010	4,377

(i) Included in Payables to related parties		
Compensation owed to a person who is an officer	**-**	30
Consulting fees owed to a company controlled by an officer	**9**	10
Expenses owed to persons who are officers, employees and consultants incurred in the normal course of business	**7**	1

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

11. Provision for Product Returns

	October 31, 2020	October 31, 2019
Balance, beginning of year	**100**	52
Charges	**103**	100
Utilization	**(100)**	(52)
	103	100

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

12. Long Term Loans

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

		Interest rates	Maturity Date	October 31, 2020	October 31, 2019
Long term loans	**unsecured**	12% per year	February 27, 2022	**-**	1,001

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

13. Lease Liability

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

Balance as at November 1, 2019 on adoption of IFRS 16	347
Interest expense	40
Lease payments	(92)
Balance as at October 31, 2020	**295**
Which consists of	
Current lease liability	62
Non-current lease liability	233

14. Convertible Debentures

	Year ended October 31, 2020	Year ended October 31, 2019
Opening balance	**-**	507
Additions	**1,138**	900
Conversion of long-term loans plus accrued interest	**1,040**	-
Fair value of conversion option allocated to equity	**(367)**	-
Transaction costs	**(34)**	-
Accretion expense	**71**	20
Conversion into shares	**(344)**	(1,427)
	1,504	-

For the year ended October 31, 2020:

On February 27th, 2020, the Corporation completed a non-brokered private placement for $2,078 worth of unsecured convertible debentures at a price of $1 (one thousand) per Debenture. The debentures bear interest at a rate of 12% per annum with a maturity date of February 27, 2023. Each debenture will be convertible at a price per Class "A" share equal to $0.40. A subsequent closing for additional gross proceeds of $100 took place on March 26th, 2020 on the same terms with a maturity date of March 26, 2023.

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

14. Convertible Debentures – *Cont'd*

The Corporation valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 20%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear as at February 27, 2020 and March 26, 2020. The equity component consists of the conversion option. On initial recognition, the liability components were $1,811, and the conversion options were $367. Transaction costs of $34 were netted against the liability and will be amortized using the effective interest method over the period of the loan. A further $7 in transaction costs, related to the equity component of the convertible debenture, were capitalized to share issue costs.

Accretion expense included in financing expense on the statement of loss and comprehensive loss, attributable to the debentures for the year ended October 31, 2020 was $71.

The debentures accrued interest of $162, included in finance expense on the statement of loss. A total of $38 is included in accrued interest on the statement of financial position.

During the year ended October 31, 2020, $344 of convertible debentures together with accrued interest of $19, were converted into 1,058,566 common shares of the corporation (Note 18).

For the year ended October 31, 2019:

During fiscal year 2019, Valeo issued $900 of additional unsecured subordinated convertible debentures, maturing on or before January 31, 2020. The debentures bear interest at 5% per annum from the date of issue, payable quarterly in arrears. On February 18, 2019, $1,400 of outstanding debentures, plus accrued interest of $27 were converted into 3,567,158 Class "A" common shares at $0.40 per share.

15. Non-convertible Debenture

	Year ended October 31, 2020
Opening balance	**-**
Additions	**1,700**
Fair value of warrants allocated to equity	**(216)**
Transaction costs	**(53)**
Accretion expense	**32**
	1,463

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

The Corporation valued the debt component of the non-convertible debentures by calculating the present value of the principal and interest payments, discounted at a rate of 20%, being management's best estimate of the rate that a non-convertible debenture without warrant coverage would bear as at July 10, 2020. On initial recognition, the liability components were $1,484, and the warrants were $216. Transaction costs of $53 were netted against the liability and will be amortized using the effective interest method over the period of the loan. A further $8 in transaction costs, related to the warrants, were capitalized to share issue costs.

Accretion expense included in financing expense on the statement of loss and comprehensive loss, attributable to the debentures for the year ended October 31, 2020 was $32. In addition, the debentures accrued interest of $64, included in financing expense on the statement of loss and accrued interest on the statement of financial position.

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

16. Income Taxes

Details of the components of income taxes are as follows:

	2020	2019
Loss before income taxes	**(4,761)**	(3,615)
Basic income tax rate	**26.5%**	26.7%
Computed income tax recovery	**(1,262)**	(965)
Decrease (increase) resulting from:		
Permanent differences	**44**	75
Effect of rate change and other	**-**	22
Change in deferred tax assets not recognized	**1,218**	868
Provision of income taxes	**-**	-
Effective tax rate	**0.0%**	0.0%

Deferred Taxes

	2020	2019
Deferred tax assets		
Donations carried forward	**11**	11
Non-capital losses carried forward	**2,886**	1,660
Loan provision	**20**	20
Employee benefit plan	**110**	93
Less: tax benefits not recognized	**(3,027)**	(1,784)
Total	**-**	-
Deferred tax liabilities		
Property, equipment and intangible assets	**769**	531
Non-capital losses carried forward	**(769)**	(531)
Total	**-**	-

Accumulated non-capital losses

The Corporation has accumulated non-capital losses of $13,648 for income tax purposes in Canada and US $60 for income tax purposes in the United States, which are available to be applied against future taxable income and expire as follows:

	CDN	**US**
2029	-	2
2030	-	11
2031	-	42
2032	-	3
2033	-	-
2034	3	-
2035	20	1
2036	1,193	1
2037	2,726	-
2038	4,183	-
2039	5,523	-

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

17. Employee Benefit Plan

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

The defined benefit plan no longer accrues obligations for the current service cost of employee future benefits as of June 30, 2005. The significant assumptions utilized in the valuation process remain consistent with those used in prior valuations. The most recent actuarial valuation of the defined benefit plan as of December 31, 2018 has established the actuarial deficit to be $469, with such amount having to be funded over the next 11 years. The required contribution in calendar 2019 was $35 and the required contribution will be $41 in calendar 2020 which may change depending on the results of the next valuation. The next actuarial valuation will be performed as of December 31, 2021 and submitted to the government authorities by the September 30, 2022 deadline. An accounting valuation is prepared by the plan actuary at each quarter end and as at October 31st of each year.

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

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

The following table presents the changes in benefit obligations and fair value of plan assets in 2020 and 2019 and reconciles the funded status to accrued pension assets as at October 31, 2020 and 2019.

	2020	2019
Changes in Pension Obligation		
Obligation, beginning of year	**1,339**	1,235
Fair value of insurance policy	**1,282**	-
Interest cost	**76**	47
Actuarial gain (loss)	**(9)**	123
Benefits paid	**(67)**	(66)
Pension obligation, end of year	**2,621**	1,339
Changes in Fair Value of Plan Assets		
Fair value of plan assets, beginning of year	**988**	994
Fair value of insurance policy	**1,282**	-
Employer contributions	**40**	32
Actual return on plan assets	**(38)**	28
Benefit payments	**(67)**	(66)
Fair value of plan assets, end of year	**2,205**	988

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

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

	2020	2019	2018	2017	2016
Funded status – deficit					
Present value of benefit obligation	**(2,621)**	(1,339)	(1,235)	(1,331)	(1,371)
Fair value of plan assets	**2,205**	988	994	1,083	1,157
Funded status – deficit	**(416)**	(351)	(241)	(248)	(214)

	2020	2019	2017	2016	2015
Experience adjust gain (loss) arising on:					
Plan liabilities	**(105)**	(123)	75	(5)	(114)
Plan assets	**10**	(10)	(79)	(22)	(30)

The interest cost in 2020 was $76 (2019 - $47) and the expected return on plan assets in 2020 was $67 (2019 - $38).

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

17. Employee Benefit Plan - *Cont'd*

The significant assumptions used are as follows:

	2020	2019
Accrued benefit obligation as of October 31		
Discount rate	**2.60%**	2.95%
Rate of compensation increase	**3.00%**	3.00%
Benefit costs for years ended October 31		
Discount rate	**2.60%**	2.95%
Rate of compensation increase	**2.10%**	2.10%

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

	2020	2019
Asset Category, as at October 31		
Equity securities – Listed	**45%**	47%
Equity securities – Non - Listed	**5%**	4%
Debt securities – Listed	**50%**	49%
Total	**100%**	100%

The following table presents the impact of changes in the major assumptions on the defined benefit obligation for the year ended October 31, 2020 and has some limitations. The sensitivities of each key assumption have been calculated without considering the changing of any other assumption. Actual results could therefore result in changes in other assumptions simultaneously. Any change in one factor may result in changes in another factor, which could amplify or reduce the impact of changes in key assumptions.

(Increase) decrease	Defined benefit obligation
Impact of 1% increase in discount rate	269
Impact of 1% decrease in discount rate	(228)

18. Share Capital and Other Equity Instruments

a) Share Capital

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

	Notes	**Number**	**$**
Balance as at October 31, 2018		44,903,008	4,659
Conversion of debentures into shares		3,567,158	1,427
Issuance of units		6,225,000	2,583
Unit issue costs		-	(491)
Conversion of loan into units		1,964,257	815
Share Issue costs		-	(164)
Balance as at October 31, 2019		56,659,423	8,829
Shares issued pursuant to unit offering		5,750,000	6,359
Unit Issue costs		-	(814)
Share issue costs		-	(185)
Exercise of stock options	18(b)	100,000	76
Compensation options exercised		39,820	23
Exercise of warrants	18(c)	447,550	307
Conversion of debentures into shares		1,058,566	429
Balance as at October 31, 2020		**64,055,359**	**15,024**

18. Share Capital and Other Equity Instruments – *Cont'd*

For the year ended October 31, 2020:

On September 10, 2020, the corporation closed a bought deal offering of 5,750,000 units at $1.20 per unit for aggregate gross proceeds of $6.9 million. Each "Unit" consists of one common share ("Share") of the Corporation and one-half of one Share purchase warrant (each whole warrant, a "Unit Warrant"), with each Unit Warrant entitling the holder to purchase one Share of the Corporation at a price of $1.50 for a period of 24 months after the closing of the Offering and subject to accelerated expiry if the closing price of the Corporation 's Shares on the Canadian Securities ("CSE") Exchange is equal to or greater than $2.00 for a period of ten (10) consecutive trading days. As a result of this transaction, $542 was allocated to Warrants on the statement of financial position as the Corporation has adopted a relative fair value method with respect to the measurement of its Warrants. The relative fair value method allocates the consideration received to the instruments based on their weighted average fair value. Transaction costs of $875 were incurred in connection with the transaction, of which $806 was allocated to share issue costs with the balance relating to warrants. Moreover, the Corporation issued 370,673 broker's compensation options, the fair value of which was determined to be $93 using a Monte-Carlo model. Broker's compensation options intitle the holder to purchase one Unit, as above, for a period of 18 months from the closing date of the transaction.

During the year ended October 31, 2020, $429 of convertible debentures were surrendered and converted into 1,058,566 Class A Shares at a conversion price of $0.40.

For the year ended October 31, 2019:

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

On July 25, 2019 ("Closing") the Corporation closed a marketed public offering (the "Offering") of 6,225,000 units (the "Units") at a price of $0.50 per Unit (the "Offering Price") for aggregate gross proceeds to the Corporation of $3.1 million. Each Unit consists of one Class A share (a "Share") and one Share purchase warrant (a "Warrant"). Each Warrant is exercisable into one Share in the capital of the Corporation (a "Warrant Share") at the price of $0.60 per Warrant Share for a period of 36 months from Closing and subject to accelerated expiry if, at any time prior to the expiry date of the Warrants, the volume weighted average trading price of the Shares on the Canadian CSE equals or exceeds $1.10 for 20 consecutive trading days, the Corporation may, within 15 days of the occurrence of such event, deliver a notice to the holders of Warrants accelerating the expiry date of the Warrants to the date that is 30 days following the date of such notice (the "Accelerated Exercise Period"). Any unexercised Warrants shall automatically expire at the end of the Accelerated Exercise Period. As a result of this transaction, $598 was allocated to Warrants on the statement of financial position as the Corporation has adopted a residual value method with respect to the measurement of its Warrants. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value to the less easily measurable component.

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

b) Share option issuance and compensation expense

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

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

18. Share Capital and Other Equity Instruments – *Cont'd*

Changes in outstanding options during the year were as follows:

	October 31, 2020		October 31, 2019	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding, beginning of year	**2,963,032**	**$0.40**	1,740,810	$0.37
Granted	**1,825,000**	**$0.70**	1,422,222	$0.43
Forfeited	**(87,500)**	**$0.51**	(150,000)	$0.40
Cancelled/expired during the period	**(325,000)**	**$1.11**	(50,000)	$0.40
Exercised	**(100,000)**	**$0.55**	-	-
Options outstanding, end of period	**4,275,532**	**$0.47**	2,963,032	$0.40
Options exercisable, end of period	**2,861,921**	**$0.44**	1,309,509	$0.37

The following options were granted in the respective reporting periods:

For the year ended October 31, 2020

Number	Notes	Date of grant	Expiry date	Exercise price	Fair value
50,000	(i)	March 26, 2020	March 25, 2025	$0.40	$0.11
1,305,000	(ii)	June 30, 2020	June 30, 2027	$0.60	$0.31
245,000	(iii)	June 30, 2020	June 30, 2027	$0.60	$0.31
200,000	(iv)	July 27, 2020	October 27, 2020	$1.50	$0.38
25,000	(v)	September 29, 2020	September 29, 2027	$1.32	$0.81
1,825,000					

(i) Vesting 25% at the date of the grant and then 25% on the first, second and third anniversary of the grant.
(ii) Vesting 50% on September 1, 2020 and 50% on September 1, 2021
(iii) Vested 100% on September 1, 2020
(iv) Vested 100% on July 27, 2020, none exercised prior to expiry.
(v) Vesting 33.33% on each anniversary of the grant date

For the year ended October 31, 2019

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

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

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

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

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

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

18. Share Capital and Other Equity Instruments – *Cont'd*

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

Number	Exercisable	Fair Value	Exercise price	Remaining contractual life
365,810	365,810	$0.14	$0.25	0.50
2,172,222	1,548,611	$0.10 - $0.40	$0.40	4.56
300,000	112,500	$0.01 - $0.45	$0.50	3.75
1,462,500	835,000	$0.31	$0.60	6.67
25,000	-	$0.81	$1.32	6.92
4,325,532	**2,861,921**			

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

Risk-free interest rate	0.17% - 0.75%
Volatility factor	59% - 89%
Expected life	0.25 - 7 years
Expected dividend rate	0%
Forfeiture rate	0%

The expected stock price volatility was estimated by using historical data from public companies in the same sector as the Corporation and over the period consistent with the duration of the award. The total share-based compensation in 2020 was $469 (2019 - $325) recognized in contributed surplus.

c) Warrants

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

	Number of shares	Weighted Average Exercise Price
Balance as at October 31, 2019	8,189,257	$0.60
Issued during the period	6,964,820	$0.97
Cancelled during the period	-	$0.60
Exercised	(447,550)	$0.60
Balance as at October 31, 2020	**14,706,527**	**$0.78**

As at October 31, 2020, the Corporation had outstanding warrants as follows:

Number of Warrants	Issue date	Expiry date	Exercise price	Fair value of full warrants	Remaining contractual life in years
7,781,527	July 25, 2019	July 25, 2022	$0.60	$0.09	1.73
1,500,000	June 30, 2020	June 30, 2021	$0.60	$0.08	0.66
2,550,000	July 10, 2020	July 10, 2022	$0.60	$0.08	1.69
2,875,000	September 10, 2020	July 10, 2022	$1.50	$0.19	1.86
14,706,527					**1.64**

During the year ended October 31, 2020, a total of 6,964,820 warrants were issued. Of the warrants issued, 1,500,000 warrants were valued using the Black Scholes option pricing model with a risk-free rate of 0.41%; a volatility of 50%; an expected life of 1 year with a nil expected dividend and forfeiture rate. 2,550,000 warrants were issued in conjunction with the issuance of a non-convertible debenture. Their fair value was determined using the residual method, refer to Note 15. A further 2,875,000 warrants were issued subsequent to the bought deal offering, the value of which were determined using the relative fair value method (Note 18(a)). The balance of the warrants were issued on exercise of compensation options related to the July 2019 unit offering.

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

18. Share Capital and Other Equity Instruments – *Cont'd*

d) Compensation Options

In connection with the issuance of units in both July 2019 and September 2020, the Corporation issued compensation units entitling the holder to purchase 1 share and 1 warrant and 1 share and ½ warrant, respectively, subject to the same terms and conditions as the original unit offering.

The following schedule presents the common shares and warrants issuable on exercise of compensation options:

	Number of shares	Number of warrants	Weighted Average Exercise Price
Balance as at October 31, 2019	435,750	435,750	0.50
Issued during the period	370,673	185,336	1.20
Exercised	(39,820)	(39,820)	0.50
Balance as at October 31, 2020	**766,603**	**581,266**	**0.84**

As at October 31, 2020, the Corporation had outstanding compensation options as follows:

Number of options	Issue date	Expiry date	Exercise price	Fair value of option	Remaining contractual life in years
395,930	July 25, 2019	July 25, 2021	$0.50	$0.23	0.73
370,673	September 10, 2020	March 10, 2022	$1.20	$0.28	1.36
766,603					**1.03**

During the year ended October 31, 2020, a total of 370,673 compensation options were issued. The compensation options were valued using a Monte Carlo simulation with a risk-free rate of 0.26%; a volatility of 48.4%; an expected life of 1.5 years.

19. Loss per Share

Basic

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

	2020	2019
Net Loss for the year	**4,761**	3,615
Weighted average number of common shares outstanding	**57,902,242**	49,588,556
Basic loss per share	**0.08**	0.07

The effect of dilution from stock options, warrants and convertible debentures was excluded from the calculation of weighted average number of shares outstanding for diluted loss per share for the year ended October 31, 2020 and 2019 as they are anti-dilutive.

20. Other Cash Flow Information

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

	2020	2019
Decrease (increase) in trade receivables	**(710)**	350
Increase in inventory	**(525)**	(468)
Increase in prepaid expenses	**(265)**	(89)
Increase in accounts payable and accrued liabilities	**(775)**	958
Decrease in income taxes	**-**	1
Increase in other receivables	**36**	(107)
	(2,239)	645

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

20. Other Cash Flow Information – *Cont'd*

Non-cash adjustments made to accounts payable

	2020	2019
Unrealized gain on foreign exchange	**(1)**	(26)
Interest on long term loans	**(6)**	-
Acquisition of intangible assets	**(113)**	(1,061)
Provision for sales returns	**(100)**	(52)
Funding of pension plan	**12**	(12)
Payment of share issue costs	**(202)**	(170)
Payment of prospectus costs	**-**	(45)
	(410)	(1,366)

Supplemental (non-cash) cash flow information

	2020	2019
Increase in share capital on conversion of loans and debentures	**344**	815
Increase in warrants on conversion of loans	**-**	167

Supplemental cash flow information

	2020	2019
Cash interest paid during the year	**288**	139
Cash interest received during the year	**(1)**	-
Cash income taxes received during the year	**-**	1

21. Sales and Marketing Expenses

	2020	2019
Sales expenses	**418**	495
Marketing expenses	**617**	669
Employee compensation	**1,089**	847
	2,124	2,011

22. General and Administrative Expenses

	2020	2019
Depreciation of property and equipment	**31**	39
Depreciation of right of use asset	**69**	-
Amortization of intangible assets	**116**	39
Impairment of intangible assets	**43**	-
Administrative expenses	**951**	1,388
Investor relations expenses	**725**	-
Product development costs	**-**	8
Employee compensation	**1,169**	1,319
Pension expense	**10**	9
	3,114	2,802

23. Financial Expenses

	2020	2019
Interest on loans	**51**	54
Effective interest on debenture	**85**	-
Accrued interest on debentures	**245**	19
Lease interest	**39**	-
Bank and other interest	**178**	37
Foreign exchange fluctuation	**3**	(3)
Bank charges	**16**	24
	617	131

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

24. Other Income

	2020	2019
Interest income	**1**	-
Rental income	**26**	32
Service income	**172**	221
	199	253

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

25. Segmented Information

Management has determined that there is only one operating segment, as all companies in the Group are in the pharmaceutical industry. Revenues are generated by sales to wholesalers and other retailers in Canada. Three wholesalers accounted for 86% of gross revenue in 2020 (2019 – 88%).

26. Related Party Transactions

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

	Year ended	
	October 31, 2020	October 31, 2019
Key management salary and benefits	**822**	789
Directors and employee stock option compensation	**468**	325
Consulting fee paid to a company controlled by an officer	**158**	196

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

	October 31, 2020	October 31, 2019
Compensation owed to a person who is an officer	**-**	30
Consulting fees owed to a company controlled by an officer	**9**	10
Expenses owed to a consultant and incurred in the normal course of business	**7**	1
Convertible debentures owed to key management and directors	**219**	-
Non-convertible debentures owed to key management and directors	**202**	-
Accrued interest on convertible debenture owed to key management and directors	**5**	-
Accrued interest on non-convertible debenture owed to key management and directors	**9**	-
Non-convertible debenture owed to Manitex, a shareholder of the corporation	**15**	-
Accrued interest on non-convertible debenture owed to Manitex, a shareholder of the corporation	**1**	-

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

27. Financial Instruments

For the years ended October 31, 2020 and 2019, the Corporation had no financial instruments carried at fair value through profit and loss ("FVTPL") or at fair value through other comprehensive income("FVTOCI").

The tables below indicate the carrying values of assets and liabilities carried at amortized cost as at:

	October 31, 2020	October 31, 2019
Financial assets:		
Cash	**2,836**	335
Trade and other receivables	**1,220**	613
	4,056	948
Financial liabilities:		
Accounts payable and accrued liabilities	**4,010**	4,377
Accrued interest on debenture	**103**	-
Lease liability	**295**	-
Convertible debentures	**1,504**	-
Non-convertible debentures	**1,463**	-
Long term loans	**-**	1,001
	7,375	5,378

Short term financial instruments, comprising trade receivables, other receivables, bank indebtedness, accounts payable and accrued liabilities and loans are carried at amortized cost, which, due to their short-term nature, approximates their fair value. Long term financial instruments consist of loans and convertible debt.

The 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. As at October 31, 2020 and 2019, the Corporation has no financial instrument measured at fair value. There were no transfers between levels during the year.

The three levels are defined as follows:

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

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

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

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

28. Financial Risk Factors

(a) Market risk

(i) Currency risk

The Corporation is exposed to financial risks that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. Valeo has an investment in a U.S. subsidiary however this subsidiary is currently not active. The Corporation does not hold financial derivatives to manage the fluctuation of these risks. At October 31, 2020, a 5% increase/decrease in the USD/CAD and the EURO/CAD exchange rates would have a $22 and $3 impact, respectively on net loss and equity. Other comprehensive income would not have been materially impacted in either of the above two situations.

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

28. Financial Risk Factors – *Cont'd*

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

	October 31, 2020		October 31, 2019	
	Foreign Currency	**CDN equivalent**	Foreign Currency	CDN equivalent
Cash – USD	**203**	**271**	4	5
Accounts payable and accrued liabilities – USD	**255**	**340**	147	193
Accounts payable and accrued liabilities – EUR	**45**	**71**	-	-
Accounts payable and accrued liabilities – AUD	**-**	**-**	44	40

(ii) Cash flow and fair value interest rate risk

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

(b) Credit Risk

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

The Corporation sells its products through a small number of wholesalers and retail pharmacy chains. The corporation has collection terms of 2/30 net 60 while its fully consolidated subsidiary, VPI Pharma Inc. has terms of 2/90 net 120. Accordingly, when determining the percentage of receivables which are current, the Corporation considers all receivables under 30 days for Valeo Pharma Inc. and all receivables under 90 days for VPI Pharma Inc. As at October 31, 2020, 92% (2019 - 95%) of trade accounts receivables are current. As at October 31, 2020, three customers accounted for 92% (2019 - 84%) of the trade receivables. The Corporation believes that there is no unusual exposure associated with the collection of these receivables.

(c) Liquidity risk

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

	Less than 30 days	**30 days to 3 months**	**3 months to 12 months**	**More than 12 months**	**Total**
Accounts payable and accrued liabilities	**3,479**	**77**	**557**	**-**	**4,113**
Accrued interest on debenture	**-**	**65**	**38**	**-**	**103**
Provision for product returns	**-**	**-**	**103**	**-**	**103**
Lease liability	**5**	**10**	**47**	**233**	**295**
Convertible debentures	**-**	**-**	**-**	**1,504**	**1,504**
Non-convertible debenture	**-**	**-**	**-**	**1,463**	**1,463**
	3,484	**152**	**745**	**3,200**	**7,581**

As at October 31, 2019

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

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

28. Financial Risk Factors – *Cont'd*

(d) Capital Structure Financial Policy

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

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

Management does not establish quantitative return on capital criteria, however management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Corporation, is appropriate. At October 31, 2020 the Corporation is not subject to any externally imposed capital requirements.

29. Commitments

(i) Lease obligation

The Corporation leases its premises and is currently bound by a five-year lease which commenced in September 2019 and will expire in August 2024.

The maturity of contractual undiscounted lease obligation payments are as follows:

	$
2021	$94
2022	$95
2023	$97
2024	$82
Total	**$368**

(ii) Licensing agreements

Milestones:

Under certain agreements, the Corporation may have to pay additional consideration should it achieve certain sales volumes or if certain milestones are met, such as approval for provincial reimbursement.

Royalty and profit sharing:

Under certain agreements, the Corporation is required to pay royalty payments, included in cost of sales, based on Net Sales at rates of 10 to 20% in any given year based on aggregate Net Sales levels achieved during the year.

Furthermore, certain agreements require the Corporation to make profit sharing payments ranging from 25% to 50% of net profits.

30. Subsequent events

On December 9, 2020, the Corporation announced that Health Canada had issued a Notice of Compliance for Redesca and Redesca HP low molecular weight heparin ("LMWH") biosimilars.