Financial Report

First quarter fiscal year 2020

January 31, 2020

VALEO PHARMA INC.

Management's Discussion and Analysis for the first quarter ended January 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 first quarter ended January 31, 2020. This document should be read in conjunction with the unaudited consolidated financial statements and notes thereto for the quarter ended January 31, 2020 which have been prepared in accordance with *International Financial Reporting Standards*. All amounts herein are expressed in thousands of Canadian dollars (unless otherwise indicated) except for share and per share amounts. All other currencies are in thousands. This discussion and analysis was prepared by management from information available as at March 26, 2020. Further information about Valeo Pharma Inc., including the Annual Information Form, is available online on SEDAR at www.sedar.com.

Non-IFRS Financial Measures

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

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

Cautionary note regarding forward-looking statements

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

GLOSSARY TERMS

Abbreviations/Terms	Calendar & Financial
COGS	Cost of Product sold
EBITDA(L)	Net income (loss) before (i) provision for (recovery of) income taxes; (ii) interest (income) expense and other financing costs; (iii) depreciation; and (iv) amortization of intangible assets
G&A	General and Administrative
S&M	Sales and Marketing Expenses
SBC	Share-Based Compensation
FY-19	Fiscal Year 2019
FY-20	Fiscal Year 2020
Q1-20	First quarter 2020
Q1-19	First quarter 2019
Q2-19	Second quarter 2019
Q3-19	Third quarter 2019
Q4-19	Fourth quarter 2019
Q2-18	Second quarter 2018
Q3-18	Third quarter 2018
Q4-18	Fourth quarter 2018
YTD	Year to date

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

OVERVIEW OF THE BUSINESS AND BUSINESS STRATEGY

The Corporation is a specialty pharmaceutical company which sources, acquires or in-licenses brand and generic products for sale in Canada and the United States. Valeo's business objective is to become a leading Canadian healthcare company by focusing on the commercialization of innovative products that improve patient lives and support healthcare providers. The Corporation operates in two distinct business divisions; branded prescription products and niche hospital injectable products. Such divisions have been selected in order to leverage the Corporation's expertise and create operational synergies. Therapeutic fields are selected based on market potential (size and growth prospects), competitive landscape, and resource requirements needed to reach the target audience and execute our commercialization strategy.

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

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

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

Valeo also operates a sophisticated SAP enterprise resource planning system and possesses the in-house expertise to handle all activities associated with regulatory, quality control, sales, inventory management, shipping and pharmacovigilance. The ability to handle such a broad range of activities has been a key factor in our successful in-licensing activities and acquisition of third-party product rights for Canada. The Corporation has two wholly owned subsidiaries: VPI Pharmaceuticals Inc., located within the Corporation's premises in Kirkland, Québec, which specializes in the development and commercialization of generic products and Valeo Pharma Corp. located in the United States.

Product Portfolio

As at the end of Q1-20, Valeo Pharma's product portfolio included five (5) commercial stage products as well as ten (10) products currently in pre-launch and or regulatory stage. Pre-launch stage products include products for which we already have obtained the DIN from HC, and where supplies are being arranged prior to launch. Regulatory stage products include products that have been filed with approvals pending, as well as products that Valeo intends to file during FY-20. The filing of some of these products may be postponed should Valeo not be able to fully access the information required for ensuring a successful review by HC.

Our product portfolio includes Synacthen a specialty neurology therapeutic product with 17 approved indications. The product was initially licensed for Canada from Mallinckrodt Pharmaceuticals and subsequently acquired by Atnahs Pharma UK Limited ("Atnahs"). Valeo has been marketing Synacthen since September 2014, for severe multiple sclerosis and for the treatment of gout. Due to a global supply shortage on this product, Canadian sales of Synacthen have been halted at the end of the Q1-19. While we were hopeful that the supply would resume in 2020, we currently have no visibility as to the possible availability of Synacthen for commercialization in Canada. Please refer to the revenue and margin analysis section that presents the impact of Synacthen on our revenues and operating results in order to better illustrate the progress made in Q1-20 over the same period last year.

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

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

Our product portfolio is presented below:

Commercial Stage

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

Pre-launch / Regulatory Stage

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

Other

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

Q1-2020 CORPORATE HIGHLIGHTS

Financial Results

Q1-20 vs Q1-19 Performance

- Net Revenues down 7% at $1,684 compared to $1,808.
- Net Product Revenues (excluding Synacthen) grew 12%.
- Gross Margin up 23%, at $322 vs $262.
- Gross Margin (excluding Synacthen) grew 44%.
- Net loss after taxes of $1,108 compared to $989.
- EBITDA Loss up 1% at $949 as compared $928.

Q1-20 vs Q4-19 Performance

- Net Revenues up 34% at $1,684 compared to $1,256.
- Gross Margin grew 128% at $322 vs $141
- Net loss after taxes down 20%, at $1,108 compared to $1,393.
- EBITDA Loss down 28% at $949 as compared $1,299.

Products

- On November 14, 2019, the Corporation announced that its NDS for Redesca had been accepted for review by HC.
- On January 21, 2020, signing of a licensing agreement with PharmaMar for the exclusive rights to commercialize Yondelis® (trabectedin), a novel marine-derived antitumor agent.

Subsequent to the end of the quarter

- On February 6th, 2020, Valeo received notice of a positive recommendation by INESSS to the Québec Health Minister for the inclusion of Onstryv® on the list of medications covered by the Régie de l'assurance maladie du Québec.
- Closing on February 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.
- On March 17th, 2020, Valeo announced that WHO recommends the use of LMWH for addressing complications of Covid-19. Valeo's LMWH Redesca is currently under review by Health Canada with marketing approval expected later this year.

SELECTED FINANCIAL DATA

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

Consolidated Statements of Loss

	Q1-20	**Q1-19**	***Change***	
	$	$	*$*	*%*
Revenues	**1,684**	1,808	*(124)*	*-7%*
Cost of Sales	**(1,362)**	(1,546)	*184*	*-12%*
Gross Profit	**322**	**262**	*60*	*23%*
Gross margin %	*19%*	*14%*	*5%*	*32%*
Expenses				
Sales & Marketing	**620**	527	*93*	*18%*
General and administrative	**781**	708	*73*	*10%*
Share-based compensation	**33**	33	*-*	*0%*
Financial	**64**	48	*16*	*33%*
Other income	**(68)**	(65)	*-3*	*5%*
	1,430	1,251	*179*	*14%*
Net Loss before taxes	**(1,108)**	(989)	*(184)*	*19%*
Provision for (recovery) of income taxes	**-**	-	*-*	*-*
Net loss for the year	**(1,108)**	(989)	*(184)*	*19%*
Other comprehensive loss				
Exchange differences on translating foreign operations	**(1)**	-	*(1)*	*-100%*
Defined benefit plan, net actuarial loss	**-**	-	*-*	*-*
Total comprehensive loss	**(1,109)**	(989)	*(120)*	*12%*
Loss per share				
Basic and diluted	**(0.02)**	(0.02)	*-*	*-*
Weighted average number of shares outstanding	**56,659,423**	44,903,008	*11,756,415*	*26%*

EBITDA(L) Reconciliation

The following table provides a reconciliation of net loss to EBITDA(L) for Q1-20 as compared to Q1-19.

	Q1-20	**Q1-19**	*Change*	
	$	*$*	*$*	*%*
Net loss for the quarter	**(1,108)**	(989)	*(119)*	*-12%*
Add (deduct)				
Provision for income (recovery of) income taxes	**-**	-	*-*	*0%*
Interest expense	**64**	48	*16*	*33%*
Depreciation	**25**	10	*15*	*150%*
Amortization of intangible assets	**78**	3	*75*	*2500%*
EBITDA(L)	**(941)**	(928)	*(13)*	*1%*

	Q1-20 vs Q1-19
Revenues	• Revenues decreased 7% or $124 between the two periods primarily due to the Synacthen back-order situation which accounted for a $331 difference. Synacthen sales in Q1-19 were $331 compared to nil for Q1-20. • The launch of Onstryv® as well as Ondansetron ODT and Benztropine prior to YE-19 has contributed to lessen the impact of the Synacthen supply shortage. • After removing the impact of Synacthen on our Q1-19 revenues, revenues have grown 12% between the 2 periods.
Cost of Sales (COGS)	• Cost of Sales varies depending on the mix of products sold. Cost of Sales includes the supply or manufacturing price for products sold, royalties on sales as well as amortization of product rights. The impact of the amortization of product rights accounted for $50 in Q1-20 compared to nil for Q1-19.
Gross Margin $ and Gross Margin %	• Our gross margin continued to improve in Q1-20 despite the impact of the amortization of products rights (see COGS above). Gross margin increased 23% between the two quarters. The increase in gross margin relates to improved product mix, including the impact of Onstryv® sales. Our gross margin % also increased at 19% vs 14% despite a 3% negative impact for the product right amortization. After removing the impact of Synacthen for Q1-19, gross margin $ grew 44% between the 2 periods. (See "Revenue and Margin Analysis").
S&M expenses	• The S&M expenses increased between the two periods reflecting the set-up of a six (6) sales professional team to support the launch of Onstryv® in Q3-19, as well as incremental promotion for our expanding product pipeline.
G&A expenses	• Our G&A expenses remained relatively stable despite the fact that Valeo became a reporting issuer following the listing of its shares on the CSE in Q2-19. The slight increase between the two periods relates to incremental investors relation activities.
Share-based compensation	• Relates to the issuance of stock options to new staff and board members. There was no increase between the periods.
Financial expenses	• The increase is due to the increase in loans outstanding at the end of each periods and to be converted into debentures. Financial expenses also capture the interest paid on our bank overdraft and operating line of credit.
Other income	• Stable between the periods. The Corporation continues to provide back-office, regulatory and other consulting services as a mean of leveraging its staff's expertise.
Net loss for the period	• The bulk of the $120 increase in our net loss between Q1-19 and Q1-20 is due to the $93, and $73 increase in S&M and G&A expenses respectively which have not been completely offset by the increase in gross margin.
EBITDA (L)	• EBITDA Loss decreased slightly by 1% between the two periods compared to the 12% increase in net loss. The Q1-20 results have been impacted by the $90 negative variance in depreciation and amortization at $103 in Q1-20 as compared to $13 for Q1-19, as well as a 33% increase in financial expenses.

Consolidated Balance Sheet Highlights

As at,	**31-Jan-20**	31-Oct-19	*Change*	
	$	$	*$*	*%*
Cash	**-**	335	*(335)*	*-100%*
Total current assets	**1,413**	1,651	*(238)*	*-14%*
Total assets	**6,406**	5,807	*599*	*10%*
Bank overdraft and operating loan	**1,065**	-	*1,065*	*100%*
Total current liabilities	**5,477**	4,477	*1,000*	*22%*
Long-term loans	**1,411**	1,001	*410*	*41%*
Total liabilities	**7,491**	5,829	*1,662*	*29%*
Share capital	**8,820**	8,829	*(9)*	*0%*
Warrants	**620**	598	*22*	*4%*
Contributed surplus	**626**	592	*34*	*6%*
Deficit	**(10,824)**	(9,716)	*(1,108)*	*11%*

	Q1-20 vs Q4-19
Cash	• Cash position has decreased as a result of the losses incurred during the quarter.
Total current assets	• The decrease during the quarter reflects the $335 reduction in our cash balance which has been partly offset by the growth of our receivables of $186.
Total assets	• The $599 increase results mainly from a $511 increase in intangible assets. Such additions to intangibles are required to grow our product pipeline.
Bank overdraft and operating loan	• Operating loan has been used to fund operating losses, variation in working capital and investing activities, net of net financing secured during the quarter.
Total current liabilities	• Main reason for the $1,000 increase is due to the $1,065 use of our operating loan which is used to bridge operating losses and working capital requirements and the timing of our investing and financing activities. Accounts payable have remained stable between the two periods with a $5 variation.
Long-term loans	• The $410 increase represents additional contribution into the Corporation's debenture offering announced following year-end. (see "Subsequent events")
Total liabilities	• Th $1,662 increase combines the increase in our short term and long-term borrowing described above.
Share Capital	• The variance reflects the costs of securing debentures convertible into shares.
Warrants	• The variance reflects the costs of issuing warrants during the quarter.
Contributed Surplus	• $34 increase relates to the stock-based compensation charged during Q1-20.
Deficit	• Increase reflects the performance of the Corporation during the year – Statement of Loss

Revenue and Margin Analysis

The following section provides additional information relative to the nature of our revenues which have been impacted by Synacthen product shortage in Q2-19. Our gross margins reflect the contribution from the various products sold for Q1-19 and Q1-20. Also, starting in Q3-19 royalties on sales of Onstryv are include in our COGS, and we have started amortizing our license fees as part of our COGS. This non-cash item will impact our gross margins for the duration of Zambon license.

	Q1-20	Q1-19	*Change*	
	$	$	*$*	*%*
Revenues	**1,684**	1,808	*-124*	*-7%*
Cost of Sales	**(1,362)**	(1,546)	*184*	*-12%*
Gross margin	**322**	262	*60*	*23%*
Gross margin %	**19%**	14%	*5%*	*32%*
Additional Information without Synacthen				
Product revenues (1)	**1,684**	1,477	*207*	*14%*
Gross Margin (1)	**322**	223	*99*	*44%*
Gross Margin % (1)	**19%**	15%	*4%*	*26%*

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

Q1-20 revenues reached $1,684 compared to $1,808 for Q1-19 representing a 7% decrease. After eliminating the impact of Synacthen sales in Q1-19, our revenues have increased 14% between the two periods. Despite the $50 negative impact of the Onstryv product rights

amortization in Q1-20, the gross margins increase between Q1-19 and Q2-20 was 23% or 44% after eliminating the impact of Synacthen. These results demonstrate our improved revenue mix as we launch more profitable products.

Several factors impacting positively our revenues and margins.

Sales of New Products

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

Other factors impacting our revenues

Synacthen

At the end of Q1-19, sales of Synacthen were halted due to a global supply shortage. In order to satisfy demand for this medically important drug, Valeo continued shipments up to the product's expiry date of February 28, 2019. During the first two quarters of 2019, our clients returned all unsold and unused units to Valeo. Due to the global shortage, Valeo was unable to replace the returned units with new supplies. Under our agreement with Atnahs (previously Mallinckrodt), the cost of all products returned are billed back to Atnahs at cost. As a result of our inability to supply replacement units, Valeo's revenues for Q1-20 did not include any sale of Synacthen as compared to $331 in Q1-19. The product has no alternative in Canada and Valeo is the only supplier of Synacthen. When sales of Synacthen resume, the Company does not expect to suffer any market share loss as a result of the supply shortage. We currently have no visibility as to when the global shortage of Synacthen will be resolved.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1-20	Q4-19	Q3-19	Q2-19	**Q1-19**	Q4-18	Q3-18	Q2-18
Product Revenue	**1,684**	1,256	2,569	981	**1,808**	1,750	2,111	167
Agency revenue	**-**	-	-	-	**-**	-	-	109
Total Revenues	**1,684**	1,256	2,569	981	**1,808**	1,750	2,111	276
COGS	**(1,362)**	(1,115)	(1,689)	(863)	**(1,546)**	(1,604)	(1,677)	(160)
Gross Margin	**322**	141	880	118	**262**	146	434	116
Gross Margin %	***19%***	*11%*	*34%*	*12%*	***14%***	*8%*	*21%*	*42%*
S&M	620	709	335	441	**527**	197	124	162
G&A	781	770	548	775	**708**	816	603	596
Share-Based Compensation	33	97	111	84	**33**	71	2	2
Financing expense	64	10	42	31	**48**	46	97	57
Other income	(68)	(52)	(64)	(73)	**(65)**	(60)	(65)	(22)
Impairment of Investment		-	-	-	**-**	5	-	-
Recovery of balance of sale		-	-	-	**-**	-	-	(150)
Net loss before taxes	**(1,108)**	(1,393)	(92)	(1,140)	**(989)**	(929)	(327)	(529)
Recovery of (provision for) income tax	**-**	-	-	-	**-**	-	5	(42)
Net loss for the quarter	**(1,108)**	(1,393)	(92)	(1,140)	**(989)**	(929)	(322)	(571)

Notes	Valuable information
Total Revenues	• The strong 34% increase in total revenues in Q1-20 as compared to the prior quarter results from the continued expansion of our product portfolio, and the continued market share gains for products currently being marketed. • Total revenues in Q3-19 were impacted by the strong pipeline-fill associated with the successful launch of Onstryv. While re-ordering of Onstryv by pharmacies has been nominal in Q4-19, our Q1-20 revenues have been positively impacted by the re-ordering of Onstryv and we expect re-ordering to accelerated sequentially going forward as more patients start using our product and private/provincial reimbursement for Onstryv improves. • The launch of Ondansetron and Benztropine took place late in FY-19. Revenues from these two products should be material in FY-20. • Increase in product revenues starting in Q3-18 followed the amendment of the Ethypharm agreement on May 1, 2018. Prior to that date, the Corporation was acting as an agent under the Ethypharm distribution contract, therefore, revenues relating to the sale of the Ethypharm products were recorded on a net basis in the consolidated statements of loss, excluding any cost of sales. Effective May 1, 2018, the Ethypharm contract was amended and the Corporation assumed more responsibilities with regards to sales of M-Eslon which led to Valeo acting as the principal in the sales of these products. Following this amendment, revenues from the sale of M-Eslon are now accounted for on a gross basis in the same manner as the Corporation's other products. The gross margin on these sales is at a fixed percentage of gross sales. Following the change in the Ethypharm contract product revenues have increased significantly while agency revenues have no longer been recorded.
COGS	• Fluctuates with total revenues as well as the mix of product sold. • The Corporation started amortizing product rights previously capitalized as intangible assets upon the launch of the respective products. Amortization for the Onstryv® license fees have stated in Q3-19 and currently represents $50 per quarter.
Gross Margin	• Fluctuates with total revenues as well as the mix of product sold. • In Q3-19, gross margin was impacted by successful launch of Onstryv®. • Going forward we are forecasting our gross margin % to trend upward as we continue to introduce new products that are more profitable for Valeo.
S&M expenses	• S&M expenses reflect the set-up of a six (6) sales professional team to support the launch of Onstryv® in Q3-19, as well as incremental promotion for our expanding product pipeline. The decrease in Q1-20 compared to Q4-19 in due to the timing of non-recurrent S&M spending. • Our salesforce can support several new products, and this should facilitate an improvement of our net results following the instruction of new branded products. Also, VPI products require nominal S&M support.
G&A expenses	• Remained relatively stable over the reported periods despite the fact that Valeo became a reporting issuer following the listing of its shares on the CSE in Q2-19. Incremental investors relation activities have impacted G&A starting Q2-19. • We foresee our overhead (the combination of S&M and S&G expenses) to be relatively stable over the near future. (See "S&M comments" above)
Share-Based Compensation	• Represents the costs of issuing stock options. Fluctuation between quarters is due to the hiring of staff and addition of Board members.
Financial expenses	• Our financial expenses fluctuate between quarters depending on the level of short term and long-term borrowing required to fund our operations. • The financial expenses in Q3-19 were relatively low following the closing of a $3.1 million public offering prior to the end of the preceding quarter. Concurrent to the public offering outstanding loans and long-term loans were converted into units, and therefore eliminating an interest-bearing liability.
Other (Income) expenses	• Stable between the periods. The Corporation continues to provide back-office, regulatory and other consulting services as a mean of leveraging its staff's expertise.
Net loss	• Except for Q3-19 when our results were impacted by the successful launch of Onstryv, our quarterly net loss has been relatively stable since the end of FY-18. • Over the last year, our net results have been impacted by the increased in S&M expenses to support the launch of Onstryv and new products but have also benefited from the added gross margin contribution from these new products. • Considering our stable overhead (See "S&M, G&A comments" above) which translates into an ability to leverage our existing cost structure, we expect our net loss to reduce sequentially over time as we add revenues from the launch of new products and secures incremental market share for products already on the market.

LIQUIDITIES AND CAPITAL RESSOURCES

Sources and Uses of Cash	Q1-20	Q1-19	*Change*	
	$	$	*$*	*%*
Operating activities:				
Net loss from operations	**(1,108)**	(989)	*(119)*	*12%*
Other Items not affecting cash	**208**	100	*108*	*108%*
Changes in non-cash working capital	**(656)**	677	*(1,333)*	*-197%*
Cash used in operations	**(1,556)**	(212)	*(1,344)*	*634%*
Investing activities:				
Cash (used) provided by investing activities	**(185)**	(119)	*(66)*	*55%*
Financing activities:				
Cash provided by financing activities	**1,407**	340	*1,067*	*314%*
Foreign exchange loss (gain) on cash	**(1)**	(20)	*19*	*-95%*
Increase (decrease) in cash	**(335)**	(11)	*(324)*	*2945%*
Cash, beginning of period	**335**	11	*324*	*2945%*
Cash, end of period	**-**	-	-	-

	Q1-2020 vs Q1-2019
Cash used in operations	• Cash used in operations represents the cash flows from operations, excluding income and expenses not affecting cash. • Cash used in operations for the period excluding the change in non-cash working capital and representing mainly our net loss was $900 in Q1-20 compared to $889 in Q1-19. Other items not affecting cash include $103 of depreciation and amortization during Q1-20, as compared to $13 in Q1-19. • Changes in non-cash working capital components used $656 of cash in Q1-20 compared to providing $677 of cash in Q1-19.
Cash used in investing activities	• Cash used by investing activities to acquire intangible assets during the period was $185 in Q1-20 as compared to $119 for Q1-19. Valeo carries many initiatives aimed at increasing the value of its licensed product portfolio, including 1) activities related to several product filings and interaction with HC, 2) in-licensing activities, as well as 3) activities for securing the listing and reimbursement of its approved products. We expect those activities to vary from quarter to quarter but to continue over the next few years.
Cash provided by financing activities	• During Q1-20, financing activities provided cash of $1,407 compared to $340 in Q1-19. The $1,407 amount included $375 increase in loans to be converted into our debenture financing closed subsequent to the end of the quarter (See "Subsequent Events"). The amount also included the funds raised through the use of our operating line of credit for $1,011 as well as our bank overdraft for $54.

Liquidity and Capital Resources

Going Concern

This MD&A have been prepared on a going-concern basis, which implies that the Corporation will continue realizing its assets and discharging liabilities in the normal course of business for the foreseeable future. As reflected in the annual audited financial statements, the Company is in the process of ramping up its activities and has not yet achieved profitability. During the quarter ended on January 31, 2020, the Company incurred a net loss of $1,108, used cash in operations of $1,556 and had a working capital deficiency of $4,064 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. Subsequent to the end of Q1-20, management was successful in raising additional capital to mitigate the working capital deficiency (*see Subsequent Events*). 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.

Liquidities

As at,	**31-Jan-20**	31-Oct-19	*Change*	
	$	$	*$*	*%*
Cash	**-**	335	*(335)*	*-100%*
Working Capital (i)	**(4,064)**	(2,826)	*(1,238)*	*44%*
Total assets	**6,406**	5,807	*599*	*10%*

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

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

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

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

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

Transactions with Related Parties

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

	Q1-20	Q1-19
	$	$
Key management salary and benefits	**191**	205
Directors and employee stock option compensation	**33**	33
Consulting fee paid to a company controlled by an officer	**45**	45

Off balance sheet arrangements

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

Risk Management

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

(a) Market risk

(i) Currency risk

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

(ii) Cash flow and fair value interest rate risk

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

(b) Credit Risk

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

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

(c) Liquidity Risk

Liquidity available via the Corporation's operating activities and credit facilities will provide the Corporation with a large portion of the funds needed to meet its short-term financial obligations that are due as of January 31, 2020. Long term loans and convertible debt issued to existing and new shareholders/lenders will also contribute to fund operations.

(d) Specific Risks

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

Management of Capital

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

Going forward, the Corporation will continue to monitor the growth of its internally generated cash flows, and look to compensate any shortfall by securing new debt from its existing shareholders and/or third party lenders as well as look for opportunities to attract new capital by expanding its shareholder base. As at January 31, 2020 the Corporation is not subject to any externally imposed capital requirements.

RECENTLY ADOPTED ACCOUNTING POLICIES

IFRS 15, Revenue from Contracts with Customers

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

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

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

IFRS 9 Financial Instruments

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

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business model under which they are held. At initial recognition, financial assets are measured at fair

value and subsequently classified as either amortized cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income. The adoption of IFRS 9 did not result in a change in the carrying values of any of the Corporation's financial assets on the transition date.

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

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

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

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

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

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

	Measurement	**31-Jan-20** **$**	31-Jan-19 $
Financial assets:			
Cash	Fair value through profit or loss	**-**	335
Trade receivables	Amortized cost	**396**	381
Other receivables	Amortized cost	**403**	232
Financial liabilities:			
Bank overdraft	Amortized cost	**54**	-
Bank indebtedness	Amortized cost	**1,011**	-
Account payable and accrued liabilities	Amortized cost	**3,843**	3,838
Long term loans	Amortized cost	**1,411**	1,001
Convertible debentures	Amortized cost	**-**	507

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

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

IFRS 16 Leases

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

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

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

The impact on transition is summarized below:

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

Statement of Compliance

The unaudited financial statements included in this MD&A for the quarter ended on January 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 unaudited consolidated financial statements, *note 3*, for an extended description of the information concerning the Corporation's significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses.

SUBSEQUENT EVENTS

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

(ii) Subsequent to Q1-20, the outbreak of a novel strain of the coronavirus, specifically identified as ("COVID-19'"), has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally resulting in an economic slowdown which may impact demand for our products and our ability to secure timely access to supplies. Also, global equity markets have experienced significant volatility and weakness. As of the time of this filing, while our revenues and supply chain have not yet been impacted by the COVID-19 outbreak, it is not possible to reliably estimate the length and severity of these developments and their impact on the financial results of the Corporation including the Corporation's ability to secure additional capital if required. As required by IFRS, we have not reflected these subsequent conditions in our financial statements as at January 31, 2020. Potential impacts include potential asset impairment for the Corporation's assets and impact on the going concern assumption (note 1 of the Corporation's quarterly consolidated financial statements).

Interim Condensed Consolidated Financial Statements
(**Unaudited**)

Valeo Pharma Inc.

January 31, 2020

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

Valeo Pharma Inc.

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

All amounts in thousands of Canadian dollars, except for share and per share amounts
For the three-month period ended January 31, 2020 and 2019

As at	Notes	January 31, 2020	October 31, 2019
ASSETS			
Current			
Cash		**-**	335
Trade and other receivables	*4*	**799**	613
Inventory		**515**	561
Prepaid expenses		**99**	142
Total current assets		**1,413**	1,651
Property and equipment		**292**	296
Right of use asset	*5*	**330**	-
Intangible assets	*6*	**4,371**	3,860
Total assets		**6,406**	5,807
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current			
Bank overdraft		**54**	-
Operating loan	*7*	**1,011**	-
Trade accounts payables	*8*	**3,843**	3,838
Other accounts payable and accrued liabilities	*8*	**387**	539
Provision for product returns		**109**	100
Lease liability	*9*	**73**	-
Total current liabilities		**5,477**	**4,477**
Long-term loans	*10*	**1,411**	1,001
Lease liability	*9*	**261**	-
Defined benefit obligation		**342**	351
Total liabilities		**7,491**	**5,829**
SHAREHOLDERS' DEFICIT			
Share capital	*11*	**8,820**	8,829
Warrants	*11*	**620**	598
Contributed surplus		**626**	592
Deficit		**(10,824)**	(9,716)
Accumulated other comprehensive loss		**(327)**	(325)
Total shareholders' deficit		**(1,085)**	**(22)**
Total liabilities and shareholders' deficit		**6,406**	**5,807**

Going Concern (note 1); Related Party Transactions (note 17); Subsequent events (note 21)

These unaudited condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 26, 2020.

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

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

Valeo Pharma Inc.

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

All amounts in thousands of Canadian dollars, except for share and per share amounts
For the three-month period ended January 31, 2020 and 2019

	Notes	**2020**	2019
Revenues		**1,684**	1,808
Cost of Goods Sold		**(1,362)**	(1,546)
Gross Profit		**322**	262
Expenses			
Sales and marketing	*13*	**620**	527
General and administrative	*14*	**781**	708
Share based compensation	*11*	**33**	33
Financial	*15*	**64**	48
Other income	*16*	**(68)**	(65)
Total Expenses		**1,430**	1,251
Net loss before income taxes		**(1,108)**	(989)
Provision for income taxes			
Current		**-**	-
Net loss for the period		**(1,108)**	(989)
Other comprehensive loss			
Exchange differences on translating foreign operations		**(1)**	-
Defined benefit plan, net actuarial (loss) gain		**-**	-
Total comprehensive loss		**(1,109)**	(989)
Loss per share:			
Basic and diluted		**(0.02)**	(0.02)
Weighted average number of shares outstanding		**56,659,423**	44,903,008

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

Valeo Pharma Inc.

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

In thousands of Canadian dollars
For the three months ended January 31st,

		Share Capital				Accumulated OCI		
	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		-	-	(989)	-	-	-	(989)
Share issue costs		(66)	-	-	-	-	-	(66)
Share based compensation		-	-	-	33	-	-	33
Balance as at January 31, 2019		4,593	-	(7,090)	300	(159)	(33)	(2,389)
Balance as at October 31, 2019		**8,829**	**598**	**(9,716)**	**592**	**(292)**	**(33)**	**(22)**
Net loss		**-**	-	**(1,108)**	**-**	**-**	**-**	**(1,108)**
Other comprehensive income		**-**	-	**-**	**-**	**-**	**(1)**	**(1)**
Share issue costs	*11*	**(9)**	-	**-**	**-**	**-**	**-**	**(9)**
Consulting fees		**-**	**22**	**-**	**-**	**-**	**-**	**22**
Share based compensation	*11*	**-**	-	**-**	**33**	**-**	**-**	**33**
Balance as at January 31, 2020		**8,820**	**620**	**(10,824)**	**626**	**(292)**	**(35)**	**(1,085)**

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

Valeo Pharma Inc.

Interim Condensed Consolidated Statements of Cash Flow
(Unaudited)
In thousands of Canadian dollars
For the three-month period ended January 31, 2020 and 2019

	Notes	**2020**	2019
Operating activities:			
Net loss from operations		**(1,108)**	(989)
Add (deduct) items not affecting cash:			
Depreciation of property and equipment		**25**	10
Amortization of intangible assets	*6*	**78**	3
Provision for sales returns		**25**	25
Share based compensation	*11*	**33**	33
Interest expense		**44**	34
Consulting fees paid by issuance of warrants		**22**	-
Unrealized (gain) loss on foreign exchange		**2**	-
Funding of pension plan		**(21)**	(5)
Net change in non-cash operating working capital		**(656)**	677
Cash used by operations		**(1,556)**	(212)
Investing activities:			
Acquisition of property and equipment		**(3)**	(9)
Acquisition of intangible assets		**(182)**	(110)
Cash used by investing activities		**(185)**	(119)
Financing activities:			
Increase in bank indebtedness		**54**	30
Increase (decrease) in operating loan		**1,011**	(200)
Increase in loans		**375**	-
Increase in convertible debentures		**-**	550
Payment of share issue costs		**(9)**	(40)
Payment of lease costs		**(24)**	-
Cash provided by financing activities		**1,407**	340
Foreign exchange loss on cash		**(1)**	(20)
Decrease in cash		**(335)**	(11)
Cash, beginning of period		**335**	11
Cash, end of period		**-**	-

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

1. Presentation of Financial Statements

Description of the Business

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

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

Statement of Compliance

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

These unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 26, 2020.

Going Concern

These unaudited interim condensed consolidated financial statements have been prepared on a going-concern basis, which implies that the Corporation will continue realizing its assets and discharging its liabilities in the normal course of business for the foreseeable future. As reflected in the unaudited interim condensed consolidated financial statements, the Company is in the process of ramping up its activities and has not yet achieved profitability. During the period ended January 31, 2020, the Company incurred a net loss of $1.1 million, used cash in operations of $1.6 million and had a working capital deficiency of $4.1 million. This raises significant doubt about the Company's ability to continue as a going concern.

Accordingly, the ability of the Corporation to realize the carrying value of its assets and continue operations as a going concern is dependent upon its ability to obtain additional financing and ultimately on generating future profitable operations. Subsequent to the end of the year, management was successful in raising additional capital (see note 21) to fund its operation and mitigate the working capital deficiency. Management anticipates that the generation of additional revenues out of its existing products and the commercialization of new products will enable the Company to achieve profitability. There is no assurance that any of these initiatives will be successful. Factors within and outside the Corporation's control could have a significant bearing on its ability to obtain additional financing or on the generation of additional revenues.

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

2. Summary of Significant Accounting Policies

Basis of consolidation

These unaudited interim condensed consolidated financial statements consolidate those accounts of the Corporation and its wholly owned subsidiaries (the "Group"). All subsidiaries have a quarterly reporting date of January 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.

(All amounts in thousands of Canadian dollars)

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

Basis of measurement

These unaudited interim condensed consolidated financial statements have been prepared on a going-concern basis, under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. This implies that the Corporation will continue realizing assets and discharging liabilities in the normal course of business for the foreseeable future. Should the going concern assumption not continue to be appropriate for the Corporation, further adjustments to carrying values of assets and liabilities may be required. On January 31, 2020, there was a consolidated working capital deficiency of $4,064 (October 31, 2019 – $2,826) and a consolidated loss of $1,108 for the three months ended January 31, 2020 (consolidated loss of $989 for the three months ended January 31, 2019).

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

Recently adopted accounting policies

IFRS 16, Leases

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

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

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

The impact on transition is summarized below:

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

Accounting policy applicable from November 1, 2019

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

(All amounts in thousands of Canadian dollars)

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

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

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

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

Accounting policy applicable before November 1, 2019

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

3. Use of Estimates and Judgements

The preparation of the unaudited interim condensed consolidated financial statements requires management to undertake several judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from these judgements and estimates. These estimates and judgements are based on management's best knowledge of the events or circumstances and actions the Corporation may take in the future. The estimates are reviewed on an ongoing basis. Information about the significant judgements, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in *Note 3* of the Corporation's 2019 annual financial statements and are still applicable for the three-month period ended January 31, 2020.

4. Trade and Other Receivables

	January 31, 2020	October 31, 2019
Trade receivables	**396**	381
Receivables from related party	**229**	105
Receivables from others	**41**	67
Sales taxes receivable	**133**	60
	799	613

(All amounts in thousands of Canadian dollars)

5. Right of Use Asset

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

	Cost	Accumulated Amortization	Carrying Value
Balance as at November 1, 2019, on adoption of IFRS 16	347	-	347
Additions	-	(17)	(17)
Balance as at January 31, 2020	**347**	**(17)**	**330**

6. Intangible Assets

	Submission costs	License fee	Total
Balance as at October 31, 2019	**1,880**	**1,980**	3,860
Additions	**225**	**364**	589
Amortization	**(28)**	**(50)**	(78)
Balance as at January 31, 2020	**2,077**	**2,294**	**4,371**

7. Operating Loan

On July 31, 2019, the Corporation entered into a new 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 of the Corporation net of over 90 day accounts, contra accounts, related accounts and all other accounts not valued by the lender plus (c) 50% of inventory value up to a maximum of $500.

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

8. Accounts Payable and Accrued Liabilities

	January 31, 2020	October 31, 2019
Trade accounts payable	**3,802**	3,838
Payables to related parties *(i)*	**41**	41
Other accounts payable and accrued liabilities	**387**	498
	4,230	**4,377**
(i) Included in Payables to related parties		
Compensation owed to a person who is an officer	**30**	30
Consulting fees owed to a company controlled by an officer	**10**	10
Expenses owed to a consultant and incurred in the normal course of business	**1**	1

9. Lease Liability

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

Balance at November 1 on adoption of IFRS 16	**348**
Interest expense	**10**
Lease payments	**(24)**
Balance as at January 31, 2020	**334**
Which consists of	
Current lease liability	**73**
Non-current lease liability	**261**

(All amounts in thousands of Canadian dollars)

10. Long Term Loans

Long-term loans include the capital and interest portion of unsecured loans representing advances made as part of the Corporation's debenture financing (see Note 21 (i)). Amounts owed are presented below:

	Interest rates	Maturity Date	As at January 31, 2020	As at October 31, 2019
Unsecured	12% per month	(a)	**1,411**	1,001

(a) - See Note 21 (i) – Subsequent Events

11. Share Capital

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

	Number of Class A shares	$
Balance as at October 31, 2019	56,659,423	8,829
Share Issue costs	-	(9)
Balance as at January 31, 2020	**56,659,423**	**8,820**

(a) Share option issuances 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, for in a twelve-month period of the issued and outstanding common shares of the Corporation (on a non-diluted basis).

Changes in outstanding options were as follows during the period:

	Three-month period ended January 31, 2020		Year ended October 31, 2019	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding, beginning of year	**2,963,032**	**$0.40**	1,740,810	$0.37
Forfeited during the period	**-**	**-**	(150,000)	$0.40
Expired during the period	-	-	(50,000)	$0.40
Granted during the period	-	-	1,422,222	$0.43
Options outstanding, end of period	**2,963,032**	**$0.40**	2,963,032	$0.40
Options exercisable, end of period	**1,390,401**	**$0.37**	1,309,509	$0.37

The following options were granted in the respective reporting periods:

For the three-month period ended January 31, 2020 - nil

(All amounts in thousands of Canadian dollars)

11. Share Capital – *cont'd*

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.

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

Number of options	Exercisable	Fair Value	Exercise price	Remaining contractual life
365,810	365,810	$0.14	$0.25	1.25
2,172,222	893,341	$0.10 - $0.40	$0.40	4.58
425,000	131,250	$0.01 - $0.45	$0.50	4.46
2,963,032	**1,390,401**			

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

Risk-free interest rate	0.72% - 2.42%
Volatility factor	67% - 90%
Expected life	2.6 - 4.6 years
Expected dividend rate	0%
Forfeiture rate	0%

The expected stock price volatility of was estimated by using historical data from public companies in the same sector and the duration of each of the award. The total share-based compensation in the first quarter of 2020 amounted to $33 (2019 - $33) recognized in contributed surplus.

(b) Warrants

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

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

As at January 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
8,189,257	July 25, 2019	July 25, 2022	$0.60	$0.09	**2.48**
150,000	January 15, 2020	January 15, 2022	$0.40	$0.15	**1.96**
8,339,257					**2.41**

(All amounts in thousands of Canadian dollars)

11. Share Capital – *cont'd*

During fiscal year 2019, the Corporation issued warrants to investors through a public offering, the value of which was determined using the residual value method. 6,225,000 warrants were issued in conjunction with the distribution of the Units while 1,964,257 were issued on the debt conversion. During 2020, 150,000 warrants were issued whose value was determined using the Black Scholes option pricing model with a risk-free rate of 1.63%; a volatility of 59%; an expected life of 2.0 years with a nil expected dividend and forfeiture rate.

12. Other Cash Flow Information

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

	Three months ending	
	January 31, 2020	January 31, 2019
Increase in trade receivables	**(166)**	(110)
Decrease (increase) in prepaid expenses	**43**	(16)
Decrease in inventory	**46**	-
Increase in other receivables	**(20)**	(45)
(Decrease) increase in accounts payable and accrued liabilities	**(559)**	848
	(656)	677

13. Sales and Marketing Expenses

	Three months ending	
	January 31, 2020	January 31, 2019
Sales expenses	**160**	109
Marketing expenses	**114**	288
Employee compensation	**346**	130
	620	527

14. General and Administrative Expenses

	Three months ending	
	January 31, 2020	January 31, 2019
Depreciation of property and equipment	**25**	10
Amortization of intangible assets (*Note 6*)	**28**	3
Administrative expenses	**393**	303
Product development costs	**-**	11
Employee compensation	**335**	381
	781	708

15. Financial Expenses

	Three months ending	
	January 31, 2020	January 31, 2019
Interest on loans	**35**	17
Interest on debentures	**-**	17
Lease interest	**10**	-
Foreign exchange fluctuation	**2**	1
Credit facility costs, cash discounts and bank charges	**17**	13
	64	48

16. Other Income

	Three months ending	
	January 31, 2020	January 31, 2019
Interest income	**-**	-
Rental income	**8**	8
Service income	**60**	57
	68	65

(All amounts in thousands of Canadian dollars)

17. Related Party Transactions

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

	Three months ending	
	January 31, 2020	January 31,2019
Key management salary and benefits	**191**	205
Directors and employee stock option compensation	**33**	33
Consulting fee paid to a company controlled by an officer	**45**	45

18. Financial Instruments

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

January 31, 2020,	**Fair value through profit and loss**	**Fair value through other comprehensive income**	**Amortized cost**
Financial assets:			
Trade receivables and other receivables	-	-	**799**
	-	-	**799**
Financial liabilities:			
Bank overdraft	**-**	-	**54**
Bank indebtedness	**-**	-	**1,011**
Accounts payable and accrued liabilities	**-**	-	**4,230**
Lease liability	**-**	-	**334**
Loans	**-**	-	**1,411**
	-	**-**	**7,040**

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

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

The Corporation categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observation of the inputs used in the measurement. For the periods ended January 31, 2020 and October 31, 2019, the Corporation has carried at fair value financial instruments in Level 1. At January 31, 2020, the Corporation did not have any financial instrument measured at fair value. There were no transfers between levels during the year.

The three levels are defined as follows:

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

(All amounts in thousands of Canadian dollars)

18. Financial Instruments

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

Date of Fair Value Measurement		Level 1 $	Level 2 $	Level 3 $
January 31, 2020				
Assets	**None**	**-**	**-**	**-**
Liabilities	**None**	**-**	**-**	**-**
October 31 2019				
Assets	Cash	335	-	-
Liabilities	None	-	-	-

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

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

19. 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 January 31, 2020, a 5% increase/decrease in the USD/CDN exchange rates would not have a material impact on net loss or equity. Other comprehensive income would not have been materially impacted in either of the above two situations.

(ii) Cash flow and fair value interest rate risk

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

(b) Credit Risk

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

The Corporation sells its products through a small number of wholesalers and retail pharmacy chains. As at January 31, 2020, 79% of trade accounts receivables are current (less than 30 days). As at January 31, 2020, three customers accounted for 69% of the trade receivables. The Corporation believes that there is no unusual exposure associated with the collection of these receivables.

(All amounts in thousands of Canadian dollars)

19. Financial Risk Factors – cont'd

(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 January 31, 2020.

	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Bank overdraft	**54**	**-**	**-**	**-**	**54**
Bank indebtedness	**-**	**-**	**1,010**	**-**	**1,010**
Accounts payable and accrued liabilities	**1,050**	**1,208**	**2,082**	**-**	**4,340**
Loans	**-**	**-**	**-**	**1,411**	**1,411**
Lease liability	**-**	**-**	**-**	**334**	**334**
	1,104	**1,208**	**3,092**	**1,745**	**7,149**

20. 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 its shareholders.

The Corporation manages its capital structure and makes adjustment to it considering changes in economic conditions and the risk characteristics of the underlying assets. The Corporation's capital structure is managed in conjunction with the capital structure and financial needs of the day-to-day operations. The Corporation currently funds the working capital requirements out of its internally generated cash flows, the use of credit facilities or by issuing long-term debt or issuing securities in order to make the additional funds available.

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

21. Subsequent events

(i) 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.

(ii) Subsequent to Q1-20, the outbreak of a novel strain of the coronavirus, specifically identified as ("COVID-19'"), has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally resulting in an economic slowdown which may impact demand for our products and our ability to secure timely access to supplies. Also, global equity markets have experienced significant volatility and weakness. As of the time of this filing, while our revenues and supply chain have not yet been impacted by the COVID-19 outbreak, it is not possible to reliably estimate the length and severity of these developments and their impact on the financial results of the Corporation including the Corporation's ability to secure additional capital if required. As required by IFRS, we have not reflected these subsequent conditions in our financial statements as at January 31, 2020. Potential impacts include potential asset impairment for the Corporation's assets and impact on the going concern assumption (Note 1).