Financial Report

Second Quarter - Fiscal Year 2023

April 30, 2023

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and operating results of Valeo Pharma Inc. ("Valeo" or the "Corporation") for the second quarters ended April 30, 2023, and 2022. This document should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto for the fiscal quarter ended on April 30, 2023, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts herein are expressed in thousands of Canadian dollars (unless otherwise indicated) except for share and per share information. All other currencies are presented in thousands. This discussion and analysis document was prepared by management from information available as at June 13, 2023. Further information about Valeo Pharma Inc., including the Annual Information Form, is available online on SEDAR at www.sedar.com.

Non-IFRS Financial Measures

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

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

Adjusted Gross Profit is defined as gross profit from product sales less the amortization charges related to the licence fees, impairment charges and non-recurrent inventory write-offs specific to product launches. Management believes that Adjusted Gross Profit better reflects the cash impact of the profit contribution of our products mix.

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

Adjusted EBITDA is defined as EBITDA adjusted for, as applicable, 1) share based compensation and other warrants or options issuance costs, 2) settlement for contract terminations such as severance for executives, or penalties for early termination of multi-year contracts, 3) impairment of intangible asset, 4) charges related to product recalls or contractual inventory returns not related to product shelf life, 5) listing fees not related to share issuance, 6) non-recurrent product launches costs or staff recruitment fees and 7) specific material non-recurrent special provisions. We use Adjusted EBITDA as a key metric in assessing our business performance when we compare results to budgets, forecasts, and prior years. Management believes Adjusted EBITDA is a more accurate measure of cash flow generation than, for example, cash flow from operations, as it removes cash flow fluctuations caused by unusual changes in working capital.

A reconciliation of Gross Profit to Adjusted Gross Profit, as well as net (loss)/income to EBITDA (and Adjusted EBITDA) are presented later in this document.

Use of Estimates and Judgements

The preparation of these 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, revenues, and expenses are discussed in Note 3 of the Corporation's 2022 audited annual consolidated financial statements.

Cautionary note regarding forward-looking statements

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

GLOSSARY TERMS

Calendar & Financial

CAGR	Compounded Annual Growth Rate
COGS	Cost of Goods Sold (or Cost of Sales)
DSU	Deferred Share Units
G&A	General and Administrative
HO	Head Office
IR	Investors Relation
MA & Reg	Medical Affairs, Quality Assurance and Regulatory
OPEX	Operating Expenses
RSU	Restricted Share Unit
S&M	Sales and Marketing
SBC	Share-Based Compensation
FY-23	Fiscal Year 2023
FY-22	Fiscal Year 2022
Q2-23	Second quarter FY-23
Q1-23	First quarter FY-23
Q4-22	Fourth quarter FY-22
Q3-22	Third quarter FY-22
Q2-22	Second quarter FY-22
Q1-22	First quarter FY-22
Q4-21	Fourth quarter FY-21
Q3-21	Third quarter FY-21
QoQ	Current year quarterly results vs last year's quarterly results
YE-22	Year-end 2022, October 31, 2022
YTD	Year to date
YoY	Current FY results vs last FY results
W/C	Working Capital, defined as current assets less current liabilities

Corporate & Operations

3PL	Third-party logistics
BD&L	Business Development and Licensing activities
Biosimilar	Biologic drug that is highly similar to a biologic drug.
BU	Business Unit defined as Commercial Unit focussing on a specific therapeutic area
COVID-19	Mild to severe respiratory illness caused by a coronavirus
CTA	Clinical Trial Application with Health Canada
DIN	Drug Identification Number
FDA	United States Food and Drug Administration
GDUFA	Generic Drug User Fee Act in the USA
GP	General Medical Practitioner
GPO	Group Purchase Organization
HC	Health Canada
HCP	Health Care Practitioner
ICS	Inhaled Corticosteroid
INESSS	Quebec's « Institut National d'Excellence en Santé et Services Sociaux »
KAM	Key Account Manager
KOL	Key Opinion Leader
LABA	Long-Acting Beta2 Agonist
LAMA	Long-Acting Muscarinic Antagonist
LMWH	Low Molecular Weight Heparin
MHI	Montreal Heart Institute
NBRx	New to Brand Prescriptions
NDS	New Drug Submission with Health Canada
OTCQB	U.S. over-the-counter venture market
pCPA	pan-Canadian Pharmaceutical Alliance
PD	Parkinson's Disease
PLA	Product listing agreement
PMPRB	Patented Medicine Prices Review Board
RAMQ	Régie de l'assurance maladie du Québec
Rx	Prescriptions
TSX	Toronto Stock Exchange
TPL	Third-Party Logistics
SKU's	Stock Keeping Units
VPI	Valeo's generic product subsidiary

OVERVIEW OF THE BUSINESS AND BUSINESS STRATEGY

The Corporation is a specialty pharmaceutical corporation which sources, acquires or in-licenses innovative prescription branded products for sale in Canada which address major unmet medical needs.

Valeo's business unique model consists of providing all the required services to register, secure reimbursement and commercialize the acquired or in-licensed pharmaceutical products in Canada. Valeo possesses the necessary in-house expertise to handle all activities associated with regulatory, quality control, supply chain, warehousing and 3PL, medical information, 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. Today, Valeo's business objective is to become a leading Canadian healthcare Corporation by focusing on the commercialization of innovative prescription products in predefined strategic therapeutic areas.

In 2021, Valeo opted to accelerate its growth by expanding its commercial and head office infrastructure to handle both specialty and mass-market products. While this strategy impacted its overhead and operating cost, it also provided significant operating leverage which is unsurpassed within the Canadian Specialty Pharma market. Valeo is currently reaping the benefits of its growth plan with 6 consecutive quarters of top-line growth translating in 6 consecutive gross margin and EBITDA improvement.

Since the second half of FY-21, Valeo's financial performance has been improving sequentially and is set to continue improving for several years due to growth potential of its expanding commercial portfolio. The current peak sales potential of Valeo's commercial portfolio is estimated to exceed $225M, while the current revenue run-rate is exceeding $55M. With relatively fixed operating costs, this demonstrates the significant financial upside which resides in Valeo's pipeline.

The following are some of the recent product/in-licensing transactions that have contributed to transform Valeo's commercial pipeline:

- ➔ In March 2021, Valeo entered into an agreement with Novartis Pharmaceutical Canada Inc. ("Novartis") to acquire the Canadian commercial rights to Enerzair® Breezhaler® ("Enerzair") and Atectura® Breezhaler® ("Atectura"). The Respiratory and Specialty Products Business Units were created to better support the commercial efforts for all products within our commercial portfolio.
- ➔ On July 29, 2022, Valeo signed two additional licensing agreements with Novartis and Kaléo, Inc. ("Kaléo") for the Canadian commercial rights to 3 major brands, namely, Xiidra®, Simbrinza® from Novartis as well as Allerject® from Kaléo. These transactions lead to the expansion of our Respiratory BU to include Allergy with the addition of Allerject, as well as the creation of an Ophthalmology BU for the promotion of Xiidra and Simbrinza.

With the continued growth of Redesca, Enerzair and Atectura, coupled with the addition of Xiidra, Simbrinza and Allerject, we expect each of the Respiratory/Allergy, Ophthalmology and Specialty BUs to positively impact our financial performance over the coming quarters. The revenue growth experienced to date in FY-23 is a testament of the transformative impact our new products have had on the Corporation's financial performance.

As of the date of this document, the Corporation has approximately 125 full time employees including a team of 85 commercial positions comprising pharmaceutical representatives, sales professionals, and medical science liaison staff.

Product Portfolio

Valeo's main product portfolio includes:

BRANDS	Indications	Partners	Regulatory, Commercial Status, and other important information
Respiratory/Allergy Business Unit			
Enerzair® Breezhaler®	LABA/LAMA/ICS fixed triple dose asthma drug.	Novartis Pharmaceuticals Canada Inc. ("Novartis")	• Commercial launch in June 2021, supported by a dedicated commercial team. • 100% Public reimbursement across Canada. Private insurance coverage in excess of 90%. • Canadian asthma market estimated at $1.03 billion. [1]
Atectura® Breezhaler®	LABA/ICS dual combination asthma drug.		
Allerject®	Portable voice-activated epinephrine injector for emergency treatment of serious allergic reactions (anaphylaxis)	Kaléo, Inc. ("Kaléo")	• Commercial rights acquired late Q3-22. Formal launch in April 2023 • Canadian Market estimated at $87M, 5-7% CAGR. [2] • Provincial reimbursement and Private insurance coverage > 90%.
Ophthalmology Business Unit			
Xiidra®	Prescription eye-drop to treat dry eye disease	Novartis Pharmaceuticals Canada Inc. ("Novartis")	• Commercial rights acquired late Q3-22. • Supported by a dedicated commercial team. • Canadian market estimated at $60 million. [1] • Private insurance coverage at 100%. No public coverage.
Simbrinza®	Ophthalmic Drops (brimonidine and brinzolamide) to treat open-angle glaucoma or ocular hypertension		• Commercial rights acquired late Q3-22. • Glaucoma Canadian market estimated at $250 million. [1] • Public reimbursement and Private insurance coverage >90%.
Specialty Products Business Unit			
Redesca™	LMWH – Anticoagulant biosimilar used to treat and prevent deep vein thrombosis and pulmonary embolism.	Shenzhen Techdow Pharmaceuticals Co., Ltd.	• Commercialized since April 2021. • Supported by a dedicated key account management team. • Canadian annual LMWH market estimated at $180 million. [1] • Public and Private insurance coverage in place across Canada.
Onstryv®	Idiopathic Parkinson's disease	Zambon S.p.A.	• Marketed since Q3-19. • Publicly reimbursement in Quebec.
M-Eslon	Extended-release morphine sulphate for pain management.	Ethypharm Inc.	• Distributed by Valeo since 2016.
Yondelis®	Soft tissue sarcoma	PharmaMar S.A.	• Marketed by Valeo since FY-20.
Ametop™ Gel 4%	For skin Anesthesia prior to injection or cannulation.	Alliance Pharma	• Marketed by Valeo since FY-20.

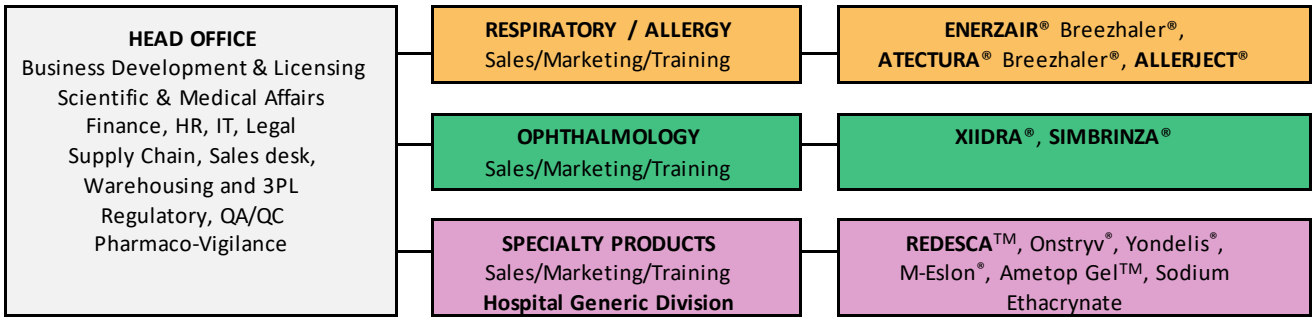
Note 1: Industry data, Source: IQVIA

Note 2: Verified Market Research

Corporate and Commercial Structure

The creation of the three Business Units ("BU") and the ongoing integration of a dedicated sales team to support the respective commercial efforts of key products within our portfolio has created significant operating leverage for Valeo. As we strive to add other strategic assets to each BU over the coming years, we are committed to taking full advantage of our new corporate structure and commercial platform.

The following presents our corporate and commercial structure.



Respiratory/Allergy Business Unit

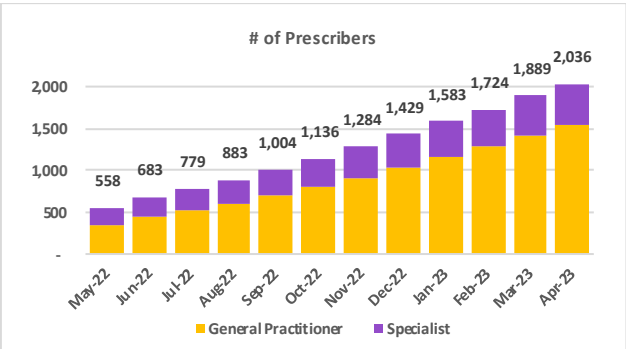
Enerzair® Breezhaler®, Atectura® Breezhaler®

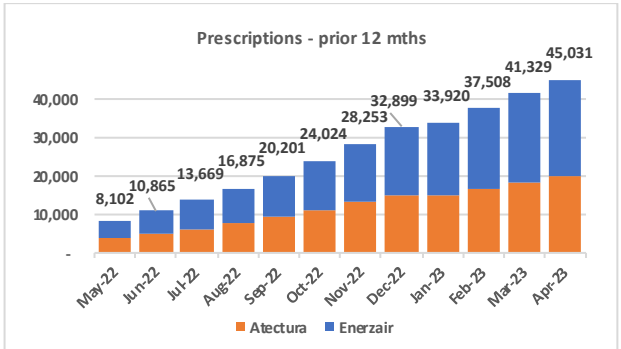
The Respiratory/Allergy BU was created in March 2021 to commercialize two newly approved asthma therapies by HC, Enerzair and Atectura, licensed from Novartis. Both products bring compelling therapeutic benefits that were demonstrated in extensive clinical trials performed by Novartis. Enerzair and Atectura are now fully covered by public jurisdictions and private payers across all Canadian provinces and territories. Enerzair and Atectura have helped establish Valeo as one of the leading companies in the large, established, and growing asthma market which has reached $1.03 Billion in 2022, up 4% over 2021 (*Industry data, Source: IQVIA)*

Approximately 4 million Canadians are living with asthma, a serious health issue affecting all age groups and 39% of asthma patients remain uncontrolled, despite available medications. This is primarily due to low adherence, treatment misuse, poor inhaler technique and lack of drug efficacy. The market opportunities for innovative medicines in asthma are significant and Valeo is well positioned to take full advantage of the favorable market dynamics.

Leveraging a Canadian nation-wide private and public reimbursement coverage since earlier in 2022, our Q2-23 results continue to show solid sales progress over prior quarters and we expect this trend to continue due to the sequential addition of new prescribing practitioners and patients.

At the end of April 2023, the total number of HCPs prescribing Enerzair and Atectura stood at 2,036 up 29% over the prior quarter and up 355% YoY. Total prescriptions during Q2-23 have reached 14,765, up 10% over the preceding quarter and up 291% compared to Q2-22. Total prescriptions for the 12 months ending April 30, 2023 exceeded 45,000, up 654% over the prior 12-month period. (*See graphs below*).





ALLERJECT® - *single-use epinephrine auto-injector*

On July 29, 2022, following the in-licensing of ALLERJECT, (epinephrine injection, USP) from Kaléo, the Respiratory BU product portfolio was expanded to include Allergy. The formal re-launch of Allerject by Valeo's commercial team took place in April 2023 ahead of the peak seasonal demand (June-September).

Allerject was first launched in 2013 and quickly captured 36% of the market. The product was subsequently withdrawn from the market due to manufacturing issues. With the implementation of an enhanced robotic manufacturing process, the product had been re-introduced with limited promotional effort in the Canadian market in 2019 and has thus far achieved a modest 5% market share. We believe that Valeo's targeted commercialization efforts combined with Allerject's strong product features will lead to significant market share gains.

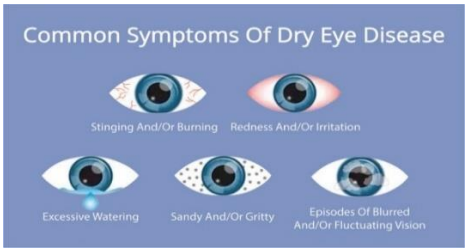
Allerject is used for the emergency treatment of serious allergic reactions (anaphylaxis) and is intended for people who are at risk and for people with a history of serious allergic reactions. Anaphylaxis reaction is a life-threatening condition which can be prevented by an appropriate use and dose of an Epinephrine Auto-injector. Allerject has significant competitive advantages over the competition as it is the ONLY voice activated auto-injector on the market, the ONLY retractable needle product and it is pocket-size for ease of use and carry. The Canadian market for single-use epinephrine auto-injectors is estimated at $87 million (IQVIA Data – 2021) and expected to be growing at an 5-7% compounded annual growth rate ("CAGR") between 2021 and 2028 (Source: Verified Market Research).

Ophthalmology Business Unit

Following the in-licensing of Xiidra and Simbrinza from Novartis on July 29, 2022, Valeo created its Ophthalmology BU. Valeo has assembled a dedicated team of experienced Ophthalmology marketing specialists and sales force focusing on the promotion of Xiidra and Simbrinza. The addition of the Ophthalmology BU is highly synergistic for Valeo as it leverages its existing commercial operations, medical and head office infrastructure. Since its creation, the Ophthalmology BU has had a significant impact on Valeo's revenues.

XIIDRA (lifitegrast) - a prescription eye drop used to treat the signs and symptoms of dry eye disease.

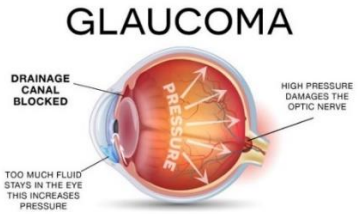
Dry-eye disease is a common condition that occurs when natural tears cannot provide adequate lubrication for the eyes. Reasons for tear film dysfunction are many, including hormone changes, autoimmune disease, inflamed eyelid glands or allergic eye disease . Incidence of the disease is also impacted by 1) aging population, 2) wearing of contact lens, 3) use of digital devices such as phones, computers etc.



Canadian market of Rx products for dry-eye disease is estimated at $60 million (IQVIA Data – 2021) and growing at a CAGR of ~5%. Xiidra has captured 31% market share and is currently the second-best selling prescription medication for dry-eye disease with YoY unit growth of 28% in 2021. The product is reimbursed by >90% of private plans across Canada and is primarily (82%) prescribed by ophthalmologists and optometrists in Canada representing a target audience of ~2050 HCPs (1,250 ophthalmologists/ 800 optometrists).

SIMBRINZA® (brinzolamide/brimonidine tartrate ophthalmic suspension) for the elevated intraocular pressure (IOP) in patients with glaucoma or ocular hypertension.

Glaucoma is a group of eye conditions that damage the optic nerve, the health of which is vital for good vision. This damage is often caused by abnormally high pressure in the eye. Glaucoma is one of the leading causes of blindness for people over the age of 60, although It can occur at any age it is more prevalent in older adults.



The Canadian market for fixed dose combinations used in glaucoma is estimated at $55 million and growing at a CAGR of ~4%. Total Canadian glaucoma market is estimated at $250 million. (IQVIA Data – 2021).

Simbrinza was launched in 2015 and has since captured 18% of the market and is currently the third best selling drug in Canada for this indication and experienced a 27% YoY unit growth in 2021.

The product is reimbursed in excess of 80% respectively by private and public plans across Canada and is mainly (92%) prescribed by ophthalmologists in Canada representing a target audience of 1,250.

Specialty Products Business Unit

The Specialty Product BU's focus is to ensure that Valeo derives maximum benefits from the commercialization of Redesca and other hospital branded products.

REDESCA™ – a transformative product for Valeo.

Following the HC approval of Redesca in December 2020, Valeo successfully launched the product in Q2-21. Due to the size of the commercial opportunity, the growing experience of our dedicated key account management sales team and the innovative approach to GPO tenders, we have experienced rapid and meaningful contribution of Redesca to our quarterly results . Redesca is the leading Canadian enoxaparin biosimilar and benefits from a broad coverage amongst private insurance companies and provincial public jurisdicti ons.

The LMWH Canadian market is estimated at $180 million and includes 3 major molecules.

- The Enoxaparin market (the "Primary Market") is estimated at $65 million annually and comprises 6 competitors (Lovenox – and 4 biosimilars to Lovenox, including Redesca).
- The remaining market (the "Secondary Market") includes Dalteparin and Tinzaparin together representing sales of $115 million annually. No biosimilar has been approved for these molecules and none are expected over the next several years.

As at the end of January 2023, Enoxaparin Biosimilars represented the majority of LMWH enoxaparin sales in Canada, as provinces and hospitals exit historical agreements and GPO tenders and select biosimilars as their products of choice.

Over the coming years we expect the following trends to drive further expansion of the biosimilar sales in Canada.

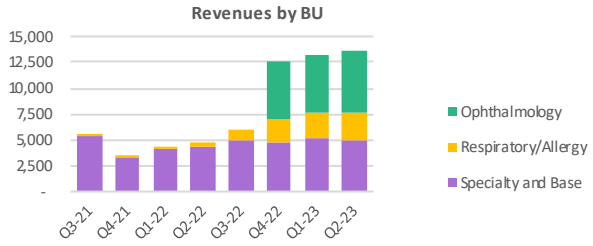
- ➔ Provincial governments to continue de-listing innovator biological drugs from public reimbursement to prioritize biosimilars.
- ➔ Enoxaparin biosimilars to start eroding the Secondary Market.

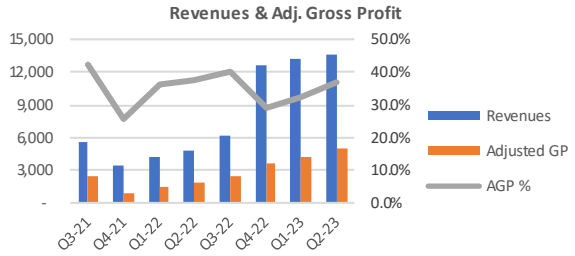
We believe Redesca is well positioned to take advantage of the above market trends.

Q2-23 Results Overview

The addition of Xiidra, Simbrinza and Allerject have boosted the peak sales potential of our existing product portfolio to $225-250 million with a significantly lower impact on our operating expenses ("OPEX"). Due to the continued growth of Redesca, Enerzair and Atectura, coupled with the addition of Xiidra, Simbrinza and Allerject in the last quarter of FY-22, Valeo achieved record revenues and record adjusted gross margins in Q2-23 for the fourth and six consecutive quarter respectively. The graphs below present our revenues by BU for the last 8 quarters. Our annualized revenue run-rate at the end of Q2-23 exceeded $55 million, which is more than 100% above our FY-22 revenues.

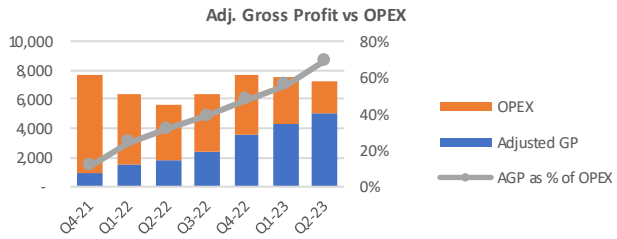
Over the last year, the sequential growth of our revenues has boosted our gross profit while we have kept our OPEX level relatively stable. The combination of growing product margins and strict control over OPEX has contributed to reducing our quarterly adjusted EBITDA loss for a 6th consecutive quarter since the end of FY-21 when Valeo implemented its new corporate and commercial infrastructure.

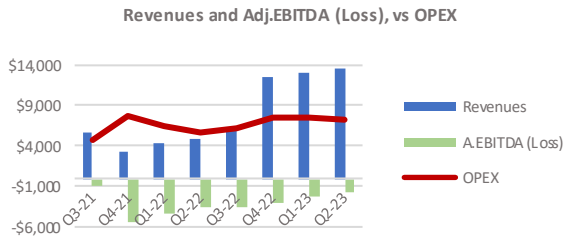




- 3 Business Units contributing to 6th consecutive quarters of revenue growth and 39% organic growth in Q2-23 vs Q2-22 before adding new products (Allerject, Xiidra, Simbrinza)
- Respiratory/Allergy BU representing a growing % of overall revenues, with 271% QoQ increase.

- 6th consecutive improvement in revenues and adjusted gross profit ($).
- Adjusted gross profit % improving sequentially following July 2022 in-licensing of Xiidra, Simbrinza and Allerject.





- Sequential improvement of the adjusted gross profit ratio over OPEX over the last 6 quarters.
- Strict control over OPEX demonstrated since the implementation of the new corporate and commercial infrastructure in Q4-21.

- Sequential increase in revenues and operating margins with strict control over OPEX, leading to 6th consecutive reduction of Adjusted EBITDA loss

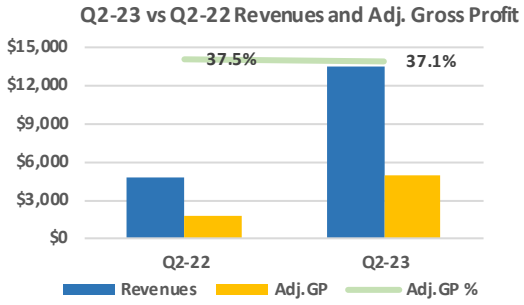
We expect continued revenue growth over the coming quarters and are committed to take full advantage of the peak sales potential of our 6 lead commercial products, while continuing to control our OPEX and leverage our existing infrastructure. This will lead to expanded gross profits and accelerate Valeo's path towards profitability. (See "Liquidities" section of this MD&A).

Our financial results for Q2-23 also show the full impact of 2 financing transactions completed during FY-22. Valeo completed a $25 million convertible financing in December 2021, as well as a US$30 million term loan from Sagard Healthcare Partners ("Sagard") in July 2022. Both transactions have provided Valeo with the capital required for acquiring commercial rights to Xiidra, Simbrinza and Allerject, and to fund our operations and working capital requirements associated with the new products.

Q2-23 Financial Results

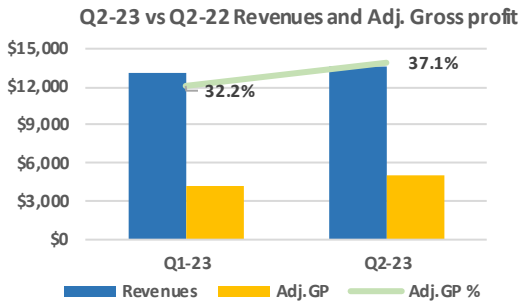
Q2-23 vs Q2-22 Performance

- Valeo achieved RECORD revenues for 4th quarter in a row in Q2-23 at $13.6 million compared to $4.8 million for Q2-22, a 184% increase.
- 39% organic revenue growth in Q2-23 vs Q2-22, including Enerzair and Atectura revenues up 271%.
- RECORD and 6th consecutive Adjusted Gross Profit increase at $5.0 million, up 181% over Q2-22
- Operating loss for Q2-23 of $2.8 million, down 28% vs Q2-22
- Adjusted EBITDA loss reduction in Q2-23 at $1.7 million compared to $3.6 million for Q2-22, a 53% improvement.



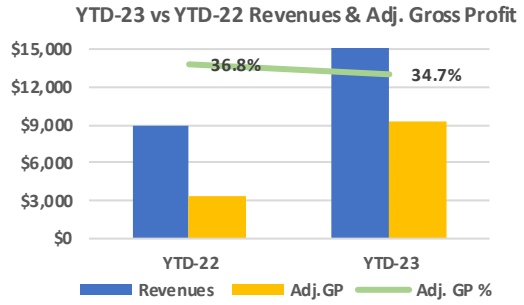
Q2-23 vs the prior quarter (Q1-23)

- Q2-23 Revenues grew 3% compared to the prior Q1-23 quarter.
- Q2-23 Adjusted Gross Profit increased 19% compared to Q1-23.
- Operating loss for Q2-23 decreased 27% compared to Q1-23.
- 6th consecutive Adjusted EBITDA loss reduction in Q2-23, a 24% improvement over Q1-23.



YTD-23 vs YTD-22 Performance

- YTD-23 Revenues of $26.7 million, up 197% vs prior Year.
- 51% organic revenue growth in YTD-23 vs YTD-22, including Enerzair and Atectura revenues up 462%.
- YTD-23 Adjusted Gross Profit of $9.3 million, up 180% over YTD-22
- Operating loss in YTD-23 down 25% compared to last year.
- Adjusted EBITDA loss of $3.9 million, down 52% vs last year.



Q2-23 Highlights

- In February 2023, the Company announced that Onstryv® (safinamide) for the treatment of patients suffering from Parkinson's disease, was now listed for public reimbursement on the Public Prescription Drug Insurance Plan of the Quebec Régie de l'assurance maladie du Québec ("RAMQ"), effective February 1, 2023.
- During the months of February and March 2023, convertible debentures issued in FY-2020 and representing $0.8 million in principal and interest were converted into 1,671,880 common shares of the Corporation.
- On March 15, 2023, Valeo announced the grant of 1,865,000 incentive share options ("Options") to employees of the Company, including 1,250,000 Options to executives, the whole in accordance with the Company's Share Option Plan. The Options have an exercise price of $0.66 per Class A share of the Company, will vest equally over two years and have a seven-year term.

Subsequent Events

- In May 2023, following the U.S. Food and Drug Administration (FDA) decision to decline Veru's request for Emergency Use Authorization (EUA) for sabizabulin, the Company and Veru Inc. mutually agreed to terminate their commercial services agreement for sabizabulin for COVID-19 in Canada originally entered into on September 14, 2022.

SELECTED FINANCIAL DATA

The following table sets forth financial information relating to the periods indicated and should be read in conjunction with the April 30, 2023, unaudited interim condensed consolidated financial statements.

Consolidated Statements of Loss

			Change				Change	
	Q2-23	Q2-22	*$*	*%*	**YTD-23**	YTD-22	*$*	*%*
Revenues	**13,558**	4,768	*8,790*	*184%*	**26,720**	9,009	*17,711*	*197%*
Cost of Goods Sold	**9,112**	3,109	*6,003*	*193%*	**18,545**	5,941	*12,604*	*212%*
Gross Profit	**4,446**	1,659	*2,787*	*168%*	**8,175**	3,068	*5,107*	*166%*
Gross Profit % to Revenues	*32.8%*	*34.8%*		*-2.0%*	*30.6%*	*34.1%*		*-3.5%*
Adjusted Gross Profit	**5,024**	1,788	3,236	181%	**9,263**	3,314	*5,949*	*180%*
Adjusted Gross Profit %	*37.1%*	*37.5%*		*-0.4%*	*34.7%*	*36.8%*		*-2.1%*
Expenses								
Sales and Marketing	**4,800**	3,539	*1,261*	*36%*	**9,291**	7,420	*1,871*	*25%*
General and Administrative	**1,349**	964	*385*	*40%*	**2,972**	2,229	*743*	*33%*
Medical affairs, QA & regulatory	**847**	814	*33*	*4%*	**1,743**	1,804	*(61)*	*-3%*
Share-Based Compensation	**228**	222	*6*	*3%*	**747**	444	*303*	*68%*
Profit Sharing	**24**	32	*(8)*	*-25%*	**86**	43	*43*	*100%*
Total OPEX	**7,248**	5,571	*1,677*	*30%*	**14,839**	11,940	*2,899*	*24%*
Total OPEX as % of Revenues	*53.5%*	*116.8%*		*-63.4%*	*55.5%*	*132.5%*		*-77.0%*
Operating Loss	**(2,802)**	(3,912)	*1,110*	*-28%*	**(6,664)**	(8,872)	*2,208*	*-25%*
Other Expenses (income)								
Financial, net	**3,886**	1,169	*2,717*	*232%*	**6,369**	2,159	*4,210*	*195%*
Unrealized loss (gain) on derivative warrant liability	**(211)**	17	*(228)*	*-1000%*	**(308)**	19	*(327)*	*-1000%*
Total Other Expenses	**3,675**	1,186	*2,489*	*210%*	**6,061**	2,178	*3,883*	*178%*
Net loss for the period	**(6,477)**	(5,098)	*(1,379)*	*27%*	**(12,725)**	(11,050)	*(1,675)*	*15%*
Other comprehensive loss								
Foreign exchange	**(2)**	(2)	-	*0%*	**1**	(4)	*5*	*-125%*
Defined benefit plan, net actuarial (loss) gain	**(148)**	74	*(222)*	*-300%*	**(148)**	74	*(222)*	*-300%*
Total comprehensive loss	**(6,627)**	(5,026)	*(1,601)*	*32%*	**(12,872)**	(10,980)	*(1,892)*	*17%*
Loss per share								
Basic and diluted	**(0.08)**	(0.06)	*(0.02)*	*33%*	**(0.15)**	(0.14)	*(0.01)*	*7%*
Weighted avg. # of shares o/s	**83,745,778**	80,661,530	*3,084,248*	*4%*	**83,682,708**	79,721,375	*3,961,333*	*5%*

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

The following table presents a reconciliation of the gross profit to adjusted gross profit for Q2-23 and YTD-23 as compared to prior year periods.

			Change				Change	
	Q2-23	Q2-22	*$*	*%*	**FY-23**	YTD-22	*$*	*%*
Gross Profit	**4,446**	1,659	*2,787*	*168%*	**8,175**	3,068	*5,107*	*166%*
Gross Profit % to Revenues	***32.8%***	*34.8%*		*-2.0%*	***30.6%***	*34.1%*		*-3.5%*
Adjustments								
Licence cost amortization	**499**	123	*376*	*306%*	**992**	246	*746*	*303%*
Inventory write-off (product launch)	**79**	6	*73*	*1000%*	**96**	-	*96*	*0%*
ADJUSTED GROSS PROFIT $	**5,024**	1,788	*3,236*	*181%*	**9,263**	3,314	*5,949*	*180%*
Adjusted Gross Profit %	***37.1%***	*37.5%*		*-0.4%*	***34.7%***	*36.8%*		*-2.1%*

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

The following table provides a reconciliation of net loss to EBITDA Loss for Q2-23 and YTD-23 as compared to prior year periods.

			Change				*Change*	
	Q2-23	Q2-22	*$*	*%*	**FY-23**	YTD-22	*$*	*%*
Net Loss	**(6,477)**	(5,098)	*(1,379)*	*27%*	**(12,725)**	(11,050)	*(1,675)*	*15%*
Adjustments								
Interest Expense	**3,322**	1,200	*2,122*	*177%*	**6,570**	2,166	*4,404*	*203%*
Unrealized loss (gain) on derivative warrant liability	**(211)**	17	*(228)*	*-1000%*	**(308)**	19	*(327)*	*-1000%*
Depreciation	**70**	60	*10*	*17%*	**135**	119	*16*	*13%*
Amortization	**558**	187	*371*	*198%*	**1,110**	387	*723*	*187%*
EBITDA Loss	**(2,738)**	(3,634)	*896*	*-25%*	**(5,218)**	(8,361)	*3,141*	*-38%*
Other Adjustments								
Share-Based Compensation	**228**	222	*6*	*3%*	**747**	444	*303*	*68%*
Recruitment costs - new product launch	**13**	-	*13*	*100%*	**43**	-	*43*	*0%*
New product launch costs	**149**	-	*149*	*100%*	**149**	-	*149*	*0%*
Inventory write-off	**79**	7	*72*	*1000%*	**96**	-	*96*	*0%*
Exchange Listing fees	**-**	169	*(169)*	*-100%*	**-**	169	*(169)*	*-100%*
Contract penalty / early termination	**-**	-	*-*	*-*	**28**	-	*28*	*100%*
Other provision (Severance)	**-**	(370)	*370*	*-100%*	**373**	(349)	*722*	*-207%*
Foreign exchange	**575**	(31)	*606*	*-1000%*	**(125)**	(13)	*(112)*	*862%*
Adjusted EBITDA Loss	**(1,694)**	(3,637)	*1,943*	*-53%*	**(3,907)**	(8,110)	*4,201*	*-52%*

	Q2-23 vs Q2-22m and YTD-23 vs YTD-22
Revenues	• Revenues represent sales of products based on Valeo's list price less chargebacks, price adjustments or other deductions related to provincial PLA's, GPO's agreements, early payment cash discounts, product returns or others. Such chargebacks and price deductions vary on a product-by-product basis. Consequently, the mix of product sales will greatly influence revenues and ultimately our profitability. • Our revenues are trending upwards due to the sequential addition of new products as well as continued market share gains. The licensing of Xiidra, Simbrinza from Novartis and Allerject from Kaleo on July 29, 2022, has impacted revenues over the last 3 quarters.
	• The Corporation achieved RECORD revenues for the 4th consecutive quarter in Q2-23 at $13.6 million compared to revenues of $4.8 million in Q2-22, a 184% increase and a 3% over the prior Q1-23 quarter. Revenues in YTD-23 increased 197% over YTD-22. • The QoQ increase resulted mainly from the addition of Xiidra, Simbrinza, and Allerject, as well as continued growth of our other core products, Redesca, Enerzair and Atectura. Our Asthma products continue to experience significant QoQ market share gains as they enter the 2nd year of commercialization post-securing broad public and provincial reimbursement. Enerzair continues to lead the fast-growing triple-active therapy asthma market, while Atectura continues to benefit from market share gains within the double-active therapy asthma market. • 2,036 HCPs were recommending our asthma products at the end of Q2-23, up 29% over the prior quarter and 355% over the same period last year. • Total prescriptions for the 12-month period ended April 30, 2023 represented 45,031 prescriptions compared to 5,966 for the 12-month period ended April, 2022, a 655% YoY increase.
Gross Profit $ and ratio %	• As we launch new products and the commercial performance of our "Branded" product portfolio grows, we are set to see an improvement in our product mix, resulting in a significant expansion of our gross profit. This will directly impact our overall profitability. • In addition to the transfer price for our products, our cost of goods also takes into consideration the amortization of product rights. Amortization of license costs have increased during the last 2 fiscal years following the signing of new license agreements with Novartis and Kaleo.
	• Our gross profit contribution in Q2-23 was up 168% over Q2-22 period at $4.4 million. Gross profit for the YTD-23 period was up 166% over YTD-22 at $8.2 million compared to $3.1 million. Our gross profit % in Q2-23 and YTD-23 has been slightly impacted by the increase in amortization of products rights for the Novartis and Kaleo products licensed in Q3-22. (See "Adjusted Gross Profit").
	• (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")

Adjusted Gross Profit $ and ratio %	• Adjusted Gross Profit is defined as gross profit from product sales less the amortization charges related to license fees, impairment charges and non-recurrent inventory write-offs specific to product launches. • Management believes that Adjusted Gross Profit better reflects the true profit contribution of our product mix. • After eliminating the amortization charges as well as other non-recurrent adjustments, our Adjusted Gross Profit for Q2-23 increased significantly over Q2-22 at $5.0 million compared to $1.8 million representing a 181% increase. Adjusted gross profit for the YTD-23 period was up 180% over YTD-22 at $9.3 million compared to $3.3 million. • Adjusted Gross Profit margin % has decreased slightly between in Q2-23 and YTD-23 compared to prior year period as a result of the change in product mix with Xiidra, Simbrinza and Allerject contributing to a significant portion of our YTD-23 revenues. The Xiidra, Simbrinza, and Allerject transactions have been structured predominantly based on a varying transfer price. • Transfer price under the Novartis license will decrease over time to compensate for the relatively low upfront license fee paid on signing compared to industry standards. Transfer price will reduce annually over the term of the agreement and will further decrease as sales increase. • The transfer price for the Kaleo agreement will be reduced over time as Valeo hits commercial milestones. • Over time our gross profit will benefit from the progressive decrease of transfer prices described above.
Sales and Marketing ("S&M") expenses	• Valeo commercializes Branded products requiring S&M support, as well as hospital products such as M-Eslon, which require limited S&M commitments. Staff costs represent the bulk of our S&M expenses, those expenses have increased following the expansion of our commercial team and the creation of our Respiratory/Allergy BU and more recently the addition of the Ophthalmology BU. Going forward we expect S&M expenses as a % of revenues to decrease over time.
	• S&M expenses for Q2-23 were $4.8 million compared to $3.5 million for Q2-22, a 36% increase. • S&M expenses for YTD-23 were $9.3 million compared to $7.4 million for YTD-22, a 25% increase. • The QoQ and YoY increases resulted from the expansion of our commercial team to support new branded products. • S&M decreased from 74% of revenues in Q2-22 to 35% of revenues in Q2-23 due to addition of new products and the growth of our existing product portfolio. We expect S&M expenses to continue trending downward as a % of revenues as we continue to leverage our commercial infrastructure.
General and Administrative ("G&A") expenses	• Valeo's G&A expenses consist primarily of staff costs for our non-S&M management team such as administration, finance and accounting, business development, legal, IR and supply chain personnel.
	• G&A expenses for Q2-23 were $1.3 million compared to $1.0 million for Q2-22, a 40% increase. For Q2-22 our G&A expenses were impacted by a favorable $0.4 million fraud recovery. • G&A expenses for YTD-23 were $3.0 million compared to $2.2 million for YTD-22, a 33% increase. • G&A expenses in YTD-23 included the $0.4 million non-recurrent severance impact paid to the departing COO. • Despite the Q1-23 severance charge, our YoY G&A expenses have decreased significantly as a % of revenues from 25% of revenues in YTD-22 compared to 11% of revenues in YTD-23. Over time we expect G&A expenses to continue trending downward as a % of revenues. • Other G&A expenses have stabilized since the creation of our new corporate structure in the second half of FY-21 (See "Overview of the Business").
Medical Affairs and Regulatory ("MA & Reg") expenses	• MA & Reg expenses for Q2-23 were $0.9 million, representing a nominal 4% increase over Q2-22. • MA & Reg expenses for YTD-23 were $1.7 million, down 3% compared to YTD-22.
	• Same as for our S&M and G&A expenses, we expect our MA & Reg expenses to remain stable and to trend downward as a % of revenues as we take full advantage of the market opportunities for our branded product portfolio. (See "Selected Quarterly Financial Information")
Share Based Compensation	• SBC expenses represent the costs relating to the issuance of stock options and RSUs/DSUs to new staff and board members and the vesting of same over time. • SBC expenses were $0.2 million in Q2-23 same as for Q2-22. • SBC expenses were $0.7 million in YTD-23 as compared to $0.4 million for YTD-22.
Profit Sharing	• Profit sharing arrangements represent agreements with our partners to share net contribution from the sale of products.
Total Operating Expenses ("Total OPEX") and Total OPEX as % of Revenues	• Total OPEX stood at $7.2 million in Q2-23, up 30% compared to $5.6 million in Q2-22, but down 5% compared to Q1-23. Total OPEX for the YTD-23 period increased 24% over YTD-22. • Our Total OPEX increased in the later part of FY-22 to reflect the addition of the Ophthalmology BU. Despite the expansion of our commercial team to support the new ophthalmology BU and the $0.4 million severance paid in Q1-23, our ratio of total OPEX to revenues has declined significantly from YTD-22 to YTD-23 at 56% compared to 133%. • We expect the ratio of Total OPEX to revenues to continue declining sequentially over the coming quarters as we continue to leverage our commercial and corporate infrastructure and take full advantage of the market opportunity for our lead products.

	• Strict control over our OPEX and continued YoY expansion of our gross margins will have a direct impact on our overall profitability.
Financial, net	• Financial expenses reflect the capital structure of the Corporation and include costs for issuing interest bearing debentures in lieu of shares to finance our operations. The financial expenses also capture the costs for non-recurrent use of our operating line of credit, supplier financing, other financial charges, and bank fees. • Financial expenses also capture FX gain or loss, as well as lease interest.
	• Our financial expenses in Q2-23 were $3.9 million compared to $1.2 million in Q2-22. • Financial expenses for the YTD-23 period were $6.4 million compared to $2.2 million in YTD-22. • Financial expenses in YTD-23 included the full impact of the $25 million convertible debenture financing completed in Q1-22 as well as the US$30 million debt financing completed in July 2022. • The increase between the reported periods also included the effective interest cost on the long-term debt (*see note 22 of our financial statements*). The effective interest costs capture the cost relative to the issuance of warrants as a mean of reducing the actual interest in such instruments. • Financial expenses in Q2-23 also included a $0.6 million unrealized net F/X loss, resulting from the conversion at the end of Q2-23 of the US$ denominated Sagard loan compared to the prior quarter, less F/X gain on cash. We are tracking F/X rates and believe our current exposure is acceptable. We intend to be more proactive in managing our F/X exposure as we approach repayments of capital on the Sagard loan starting in the last quarter of FY-24. • The Net F/X impact for the YTD-23 period was a $0.1 million gain.
Unrealized loss (gain) on derivative warrant liability	• Following the April 2021 bridge financing, warrants issued as part of the transaction resulted in the creation of an embedded derivative warrant liability. The warrants expired in Q2-23 and led to a $0.2 million unrealized gain for Q2-23 and $0.3 million for YTD-23. • The embedded derivative was eliminated in Q2-23 on expiry of the warrants.
Net loss for the period	• In Q2-23, despite strong commercial gains and leveraging of our commercial and corporate infrastructure, our net loss was $6.5 million compared to $5.1 million in Q2-22 representing 27% increase. • Net operating loss for YTD-23 was $12.7 million compared to $11.1 million for YTD-22. • The increase in net loss in Q2-23 and YTD-23 was mainly due to the increase in financial expenses and the increase in S&M expenses to support the new business unit, which were partly offset by the significant expansion of our gross profit.
EBITDA (L)	• Management believes our EBITDA performance is more indicative of the commercial progress achieved by the Corporation as it eliminates the financial costs associated with our financial structure and the amortization of prior investments in our product portfolio such as license fees and regulatory filings. (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")
	• EBITDA Loss in Q2-23 was $2.7 million compared to $3.6 million in Q2-22, a 25% decrease. • EBITDA Loss for the YTD-23 period was $5.2 million compared to $8.4 million for the YTD-22 period, a 38% decrease.
Adjusted EBITDA (L)	• (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")
	• Our Adjusted EBITDA(L) includes adjustments such as Share-Based Compensation, foreign exchange as well as other non-recurrent adjustments to our net loss such as material severance costs. • Following such adjustments, our Adjusted EBITDA loss in Q2-23 declined for the 6th consecutive quarter to $1.7 million compared to $3.6 million in Q2-22, representing a 53% improvement. • For the YTD periods, our Adjusted EBITDA loss decreased from $8.1 million for YTD-22 to $3.9 million for YTD-23, a 52% improvement.

Consolidated Balance Sheet Highlights

	Q2-23	YE-22	Change $	Change %
Cash	**10,119**	22,501	*(12,382)*	*-55%*
Trade and other receivables	**6,563**	5,428	*1,135*	*21%*
Inventories	**13,554**	9,980	*3,574*	*36%*
Prepaid expenses and deposits	**973**	2,620	*(1,647)*	*-63%*
Intangible assets	**14,447**	15,482	*(1,035)*	*-7%*
Total assets	**48,363**	58,265	*(9,902)*	*-17%*
Accounts payable and accrued liabilities	**13,126**	12,458	*668*	*5%*
Provisions	**1,345**	1,779	*(434)*	*-24%*
Convertible debentures	**-**	743	*(743)*	*100%*
Derivative warrant liability	**-**	308	*(308)*	*-100%*
Total current liabilities	**14,517**	15,339	*(822)*	*-5%*
Convertible debentures	**21,006**	20,332	*674*	*3%*
Long-term debt	**40,418**	39,201	*1,217*	*3%*
Total liabilities	**77,527**	76,113	*1,414*	*2%*
Share capital	**27,450**	26,359	*1,091*	*4%*
Warrants	**2,926**	2,926	-	*0%*
Equity component of convertible debenture	**2,989**	3,114	*(125)*	*-4%*
Deficit	**(67,181)**	(54,456)	*(12,725)*	*23%*

	Q2-23 vs YE-22
Cash	• Our cash balance at the end of Q2-23 stood at $10.1 million compared to $22.5 million at YE-22 representing a $12.4 million decrease. The decrease between the two reported periods included 1) the second $5 million license fee payment to Novartis for acquiring the rights to Xiidra and Simbrinza (see "*accounts payables*") 2) inventory to support the sale of new products, and 3) working capital and operating requirements for YTD-23. • The reduction in our Cash during Q2-23 was only $0.8 million compared to the end of the prior quarter.
Trade and other receivables	• Our trade and other receivables increased $1.1 million between YE-22 and Q2-23 reflecting the sequential increase in our revenues.
Inventories	• Our inventory levels increased by $3.6 million between YE-22 and Q2-23 to support the growth of Redesca, Enerzair and Atectura, but also to acquire inventory specific to Xiidra, Simbrinza and Allerject.
Prepaid expenses and deposits	• Prepaids and deposits decreased by $1.6 million between YE-22 and Q2-23. The YE-22 balance included a $2 million prepayment to a vendor for inventory paid in FY-22 and delivered in the first week of FY-23.
Intangible assets	• Intangible assets represent investments made in order to build our product pipeline and are amortized using the straight-line method, over the remaining useful life of the asset (or license) starting when the product is ready for commercialization. • Intangible assets are tested quarterly for impairments as per IFRS Standards (IAS 38) to ensure that the recoverable value of each asset exceeds its book value. • Our intangible assets have decreased by $1.0 million at the end of Q2-23 compared to YE-22 reflecting amortization charges for the period.
Total assets	• Total assets decreased by $9.9 million between YE-22 and Q2-23, reflecting cash used to support our operations and settle the second $5 million payment to Novartis for the rights to Xiidra and Simbrinza.
Accounts payable and accrued liabilities	• Our accounts payable and accrued liabilities remained flat between YE-22 and Q2-23, with a nominal 5% increase.
Provisions	• Provisions include accruals for price rebate and chargebacks resulting from co-pay programs, GPO and PLA agreements not yet invoiced. • Provisions required at the end of Q2-23 have decreased by 24% compared to YE-22 reflecting the evolution of our product mix over the last completed quarters.
Current portion of Convertible Debentures	• Convertible debentures issued in February and March 2020 have matured during Q2-23 and were all converted into common shares.
Derivative warrant liability	• Following the April 2021 bridge financing, warrants issued as part of the transaction resulted in the creation of an embedded derivative warrant liability.

	• This liability was eliminated during the last completed quarter due to the maturity and conversion of the debentures.
Total current liabilities	• Our current liabilities between YE-22 and the end of Q2-23 reduced slightly with a nominal 5% decrease.
Convertible debentures (non-current portion)	• During Q1-22, the Corporation completed a $25 million convertible debentures financing. • The Q2-23 and YE-22 amounts are presented after netting the transaction costs, the allocation of the conversion features of the debenture to the equity component, as well as the accretion expense. The $0.8 million reduction since YE-22 reflects the accretion expense for the YTD-23 period.
Long-term debt	• As a result of the Sagard Senior Secured Debt transaction in July 2022, the Corporation is now recording a US$30 million new debt as long-term liability. The debt matures in 5 years and is denominated in US$. Consequently, the Q2-23 balance represents the Canadian $ equivalent of the Sagard debt, less the value of the warrants issued as part of the transaction and recorded as equity and the transaction costs. • The Q2-23 value of the Sagard Debt increased by $1.2 million since YE-22 mainly due to a $1.2 million accretion expense. The F/X impact of converting Sagard debt at YE-22 and Q2-23 led to a nominal $0.2 million gain.
Share capital	• The increase between the periods was due to the conversion of debentures which matured during Q2-23.
Deficit	• The increase reflects the performance of the Corporation during the period (See "Consolidated Statement of Loss")

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2-23	Q1-23	Q4-22	Q3-22	**Q2-22**	Q1-22	Q4-21	Q3-21
Revenues	**13,558**	13,162	12,663	6,073	**4,768**	4,241	3,382	5,667
Cost of Goods Sold	**9,112**	9,433	11,678	3,845	**3,109**	2,832	2,682	3,506
Gross Profit	**4,446**	3,729	985	2,228	**1,659**	1,409	700	2,161
Gross Profit % to Revenues	***32.8%***	*28.3%*	*7.8%*	*36.7%*	***34.8%***	*33.2%*	*20.7%*	*38.1%*
Adjusted Gross Profit[1]	**5,024**	4,239	3,640	2,451	**1,788**	1,526	867	2,394
Adjusted Gross Profit %[1]	***37.1%***	*32.2%*	*28.7%*	*40.4%*	***37.5%***	*36.0%*	*25.6%*	*42.2%*
Expenses								
Sales and Marketing	**4,800**	4,491	4,314	4,098	**3,539**	3,881	4,183	2,399
General and Administrative	**1,349**	1,623	1,568	1,245	**964**	1,265	1,897	1,707
Medical affairs, QA & regulatory	**847**	896	1,444	680	**814**	990	1,237	421
Share-Based Compensation	**228**	519	235	262	**222**	222	409	173
Profit Sharing	**24**	62	71	28	**32**	11	9	55
Total OPEX	**7,248**	7,591	7,632	6,313	**5,571**	6,369	7,735	4,755
Total OPEX as % of Revenues	*53.5%*	*57.7%*	*60.3%*	*104.0%*	***116.8%***	*150.2%*	*228.7%*	*83.9%*
Operating Loss	**(2,802)**	(3,862)	(6,647)	(4,085)	**(3,912)**	(4,960)	(7,035)	(2,594)
Other Expenses (income)								
Financial, net	**3,886**	2,483	4,149	1,282	**1,169**	990	496	375
Unrealized loss (gain) on derivative warrant liability	**(211)**	(97)	(307)	14	**17**	2	130	10
Income taxes	**-**	-	(1,174)	-	**-**	-	-	-
Net Loss for the period	**(6,477)**	(6,248)	(9,315)	(5,381)	**(5,098)**	(5,952)	(7,661)	(2,979)
EBITDA (Loss)[1]	**(2,738)**	(2,480)	(7,046)	(3,910)	**(3,634)**	(4,725)	(6,719)	(2,332)
Adjusted EBITDA (Loss)[1]	**(1,694)**	(2,213)	(2,912)	(3,465)	**(3,637)**	(4,471)	(5,520)	(902)

1. See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures"

Notes	**Valuable information**
Revenues	• Our revenues in Q2-23 were up for the 6th consecutive quarter which is indicative of the continued commercial progress made by Redesca, Enerzair and Atectura, but also reflect the addition of Xiidra, Simbrinza and Allerject in the later part of FY-22.

	• Our Q4-21 revenues were down compared to the prior quarter as the impact of the Q3-21 pipeline fill led to softer sales of Redesca for that quarter. Our Q3-21 revenues were very strong due the pipeline fill associated with the launch of Redesca.
Gross Profit $ and %	• Gross Profit fluctuates with revenues and mix of product sold. • Gross Profit in Q2-23 continued to benefit from the sequential increase in our revenues showing a 19% increase over Q1-23. Gross Profit in Q1-23 increased significantly compared to Q4-22 representing a 279% improvement. Our Q4-22 performance was impacted by product write-offs, intangible write-offs and increase amortization charges related to our license agreements. • Gross Profit in Q3-21 reflected the strong pipeline fill associated with the Redesca launch.
Adjusted Gross Profit $ and %	• Same as for our Gross Profit, our Adjusted Gross Profit increased steadily during the last 6 quarters, including a sharp increase in Q4-22 and Q1-23 reflecting the improvement of our product mix as well as additional margins from the recently acquired products. • Adjusted Gross Profit increased by 19% in Q2-23 compared to Q1-23, 16% in Q1-23 compared to Q4-22, which followed a 49% increase in Q4-22 compared to Q3-22. • Adjusted Gross Profit % had been trending upward between Q4-21 and Q3-22 due to the improvement of our product mix. The Q4-22 Adjusted Gross Profit % has declined because of the significant revenue impact of Xiidra, Simbrinza and Allerject with contribution margins reflecting the structure of these agreements. (See "Consolidated Statement of Loss" analysis). Adjusted gross profit % over the last quarters are indicative of an improved sales mix as well as improved margins on recently acquired products.
Sales and Marketing	• Our S&M expenses were up in Q2-23, reflecting the addition of our Ophthalmology business unit which is now fully operational and promoting Xiidra and Simbrinza. S&M had been stable over the prior quarters and reflect the creation of our new commercial infrastructure in Q4-21.
General and Administrative	• G&A expenses have remained stable over the last year despite the $0.4 million severance paid to the departing COO in Q1-23. Our Q2-22 G&A expenses were positively impacted by a $0.4 million recovery from the fraud recorded in FY-21.
Medical Affairs and Regulatory	• Medical Affairs and Regulatory activities have declined in Q1-23 compared to the prior period due to timing of MA & Reg activities, as well as a $0.5 million impairment charges on intangible assets expensed in Q4-22. • Our MA & Reg costs have increased in Q4-21 reflecting the costs of the expanded MA department, which was required to support the commercialization of new products, as well as a $0.2 million impairment charge.
Share-Based Compensation	• Represents the costs of issuing stock options, RSUs and DSUs (Long-Term Incentive Plan or "LTIP"). Fluctuation between quarters is due to the hiring of staff, the addition of Board members and the vesting associated with LTIP initiatives.
Profit Sharing	• Starting FY-21 the Corporation started accruing and paying amounts under profit-sharing arrangements. Such arrangements are meant to adjust the transfer price to be paid by Valeo and have the licensee and licensor share the commercial success of the products.
Total Operating Expenses ("Total OPEX")	• Total OPEX have been stable and slightly declining over the last few quarters after being impacted by the additional expenses related to the addition of the new Ophthalmology business unit in the later part of FY-22. • The ratio of total OPEX to revenues is declining rapidly. The ratio has declined for the 6th consecutive quarter as an indication of our commercial progress and better utilization of our operating leverage. The ratio of OPEX to revenues was 54% in Q2-23 considerably lower than 229% in Q4-21. Our Total OPEX had increased in Q4-21 to support the growth of our commercial platform and HO infrastructure thus providing significant leverage to grow our revenues and add key products to commercial portfolio. • We expect the ratio of Total OPEX to revenues to decline sequentially over the coming quarters as we continue to execute our commercial initiatives and take full advantage of the market opportunity for our lead products. • The reduction of the ratio of OPEX to revenues benefitted significantly from the addition of the Xiidra, Simbrinza, Allerject revenues since Q4-22.
Financial, net	• Financial expenses were up in Q2-23 due to a $0.6 million negative net F/X impact on converting the quarter end balance of the US$ denominated debt F/X impact, which followed a favorable $0.7 million impact in Q1-23. Before considering the F/X impact, the increase over the last 3 quarters reflected the addition of the Sagard debt late in Q3-22. • Our Financial expenses increased in Q1-22 following the implementation of the $25 million convertible financing.
Net loss for the period	• Our Net loss in Q1-23 decreased by 33% as compared to Q4-22 and reflects the increase in our gross profit, and tight control over OPEX. The net loss in Q4-22 reflected significant write-off on intangibles which were necessary to adjust the carrying value of some intangible assets. Our Net loss had increased in Q4-21 compared to prior periods due to the decrease in revenues, increase in OPEX, and financial expenses explained earlier.
EBITDA (Loss)	• Our EBITDA loss for Q2-23 was up 10% compared to the prior quarter due to a unrealized F/X loss compared to a $0.7 million gain during the prior quarter. Adjusted EBITDA (below) provides a better indication of the sequential improvement of our financial performance.

Adjusted EBITDA (Loss)	• Our Adjusted EBITDA (Loss) is a better indicator of our progress over the last year as it eliminates the impact of our LTIP programs as well as non-recurrent expenses, some of which were required to execute our business plan and achieve fast growth objectives. • Our Adjusted EBITDA (loss) in Q2-23 improved for the 6th consecutive quarter, including a 24% decrease compared to Q1-23, and reflected the sequential QoQ increase in our revenues and gross profit, while OPEX (less non-recurrent items) remained under tight control. • Similar to our net loss and EBITDA (Loss), we expect our Adjusted EBITDA performance to trend upward over the coming quarters as the sales growth of Redesca, Enerzair, and Atectura, as well as the impact of Xiidra, Simbrinza, Allerject translate into incremental operating profit, hence contributing to help Valeo reach profitability.

LIQUIDITIES AND CAPITAL RESOURCES

			Change				*Change*	
	Q2-23	Q2-22	$	%	**YTD-23**	YTD-22	$	%
Operating Activities								
Net loss from operations	**(6,477)**	(5,098)	*(1,379)*	*27%*	**(12,725)**	(11,050)	*(1,675)*	*15%*
Other Items not affecting cash	**2,414**	581	*1,833*	*315%*	**4,019**	1,841	*2,178*	*118%*
Changes in non-cash working capital	**3,389**	(1,678)	*5,067*	*-302%*	**(23,060)**	(6,039)	*2,979*	*-49%*
Cash used by operations	**(674)**	(6,195)	*5,521*	*-89%*	**(11,766)**	(15,248)	*3,482*	*-23%*
Investing activities								
Cash used by investing activities	**(237)**	(132)	*(105)*	*80%*	**(413)**	(289)	*(124)*	*43%*
Financing Activities								
Cash (used) provided by financing activities	**(57)**	(563)	*506*	*-90%*	**(107)**	18,674	*(18,781)*	*-101%*
Foreign exchange loss (gain) on cash	**133**	23	*110*	*478%*	**(96)**	46	*(142)*	*-309%*
Increase (decrease) in cash	**(835)**	(6,867)	*6,032*	*-88%*	**(12,382)**	3,183	*(15,565)*	*-489%*
Cash, beginning of the period	**10,954**	12,093	*(1,139)*	*-9%*	**22,501**	2,043	*20,458*	*1000%*
Cash, end of period	**10,119**	5,226	*4,893*	*94%*	**10,119**	5,226	*4,893*	*94%*

	Q2-23 vs Q2-22
Cash used in operations	• Cash used in operations represents cash flows from operations, excluding income and expenses not affecting cash.
	• Cash used in operations for Q2-23 was nominal at $0.7 million compared to $6.2 million in Q2-22, a $5.5 million improvement. The increase came from a $5.1 million increase in non-cash working capital and $1.8 million from items not affecting cash which offset the $1.4 million increase in net loss from operation. • For the YTD periods, cash used by operations improved by $3.5 million between YTD-22 and YTD-23. Same as for the QoQ period, the favorable variance came from a $3.0 million variance in non-cash working capital and $2.2 million from items not affecting cash which covered the $1.7 million increase in net loss from operation.
Cash used in investing activities	• Cash used by investing activities were nominal during the 2 reported periods, and include investments in office equipment, software and warehouse to support the expansion of our activities.
Cash (used) provided by financing activities	• During Q2-23 and YTD-23 financing activities used nominal cash compared to financing activities generating $18.7 million during YTD-22 representing net proceeds for the convertible debenture financing closed in December 2021, less $4.8 million representing repayments and conversion of prior existing debentures.

Related Party Transactions

The following table presents the related party transactions presented in the Statement of Loss for the respective periods:

	Q2-23	Q2-22	**YTD-23**	YTD-22
Key management salary and benefits	**325**	367	**1,047**	962
Directors and employee stock option compensation	**228**	222	**747**	444
Consulting fees paid to a corporation controlled by an officer	**79**	59	**154**	146
Service income	**23**	-	**23**	-

The following table represents the related party transactions presented in the Statement of Financial Position as at:

As at	**April 30, 2023**	October 31, 2022
Amounts owed to key management, officers and directors		
Consulting fees	**24**	20
Expenses incurred in the normal course of business	**1**	-
Convertible debentures	**231**	486
Accrued interest on convertible debentures	**3**	8
Amounts owed to 100079 Canada Inc., a shareholder of the Corporation		
Convertible debentures	**1,343**	1,313
Accrued interest on convertible debentures	**15**	15
Amounts owed from ChitogenX Inc., a corporation with common shareholders		
Service income	**23**	48

Going Concern

The 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 Audited consolidated financial statements, the Corporation is carrying the costs of its commercial and head office infrastructure, which is aimed at leveraging the commercial potential of its expanding commercial portfolio. Consequently, d espite its strong growth and record revenue, Valeo has not yet achieved profitability. During the six-month period ended on April 30, 2023, the Corporation incurred a net loss of $12.8 million and used cash in operations of $11.8 million. As at April 30, 2023, the Corporation had a working capital surplus of $16.7 million. This raises significant doubt about the Corporation's ability to continue as a going concern.

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

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

Liquidities

			Change	
As at	**Q2-23**	YE-22	*$*	*%*
Cash	**10,119**	22,501	*(12,382)*	*-55%*
Trade and other receivables	**6,563**	5,428	*1,135*	*21%*
Inventories	**13,554**	9,980	*3,574*	*36%*
Prepaid expenses and deposits	**973**	2,620	*(1,647)*	*-63%*
Accounts payables and accrued liabilities	**13,126**	12,458	*668*	*5%*
Provisions	**1,345**	1,779	*(434)*	*-24%*
Working Capital	**16,692**	25,190	*(8,498)*	*-34%*

Cash at the end of Q2-23 stood at $10.1 million as compared to $22.5 million at the start of the year, representing a $12.4 million decrease, but a $0.8 million nominal decrease over the prior Q1-23 quarter. Our working capital surplus at the end of Q2-23 stood at $16.7 million as compared to $25.2 million at YE-22 representing a $8.5 million decrease.

In addition to our cash resources, under the Sagard secured term loan agreement, Valeo has the ability to implement an operating line of credit to leverage its growing high-quality short-term assets.

With growing operating profit, tight control over our OPEX translating into fast declining EBITDA Loss, our operating requirements are also declining rapidly as evidenced by the nominal $0.8 million cash used during Q2-23. Over the last 2 fiscal years we have secured capital to fund the in-licensing of additional growing commercial assets as well as to fund the growth of our new Respirology/Allergy and Ophthalmology business units. (See "Business Overview").

Going forward we intend to use our cash reserves and prioritize access to non-dilutive capital to support our operations as we strive to capture the significant market opportunities for Redesca, Enerzair, Atectura, Xiidra, Simbrinza and Allerject.

Following our 4th consecutive record quarterly revenue performance in Q2-23, we expect the growing contribution of our core products to materially impact our revenues and gross profit going forward. Valeo is determined to reach EBITDA profitability in the very near future, by leveraging the commercial potential of its current product portfolio which together exceeds $225+ million of peak sales potential.

Leveraging our commercial assets, as well as acquiring additional product rights that can contribute immediately to our results, is of the upmost importance for Valeo's management to reach EBITDA profitability over the coming year.

Entering into in-licensing agreements with pharmaceutical companies necessitates the payment of up-front amounts, milestone payments as well as all the costs normally associated with preparing for the launch of a pharmaceutical product. Going forward, Valeo intends to fund these in-licensing agreements with a combination of cash, cash from operations, equity provided by current and new shareholders, as well as convertible or non-convertible debt if required. 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 and to prioritize product acquisition that will leverage our existing commercial infrastructure. As part of the Sagard Term loan agreement, Valeo has access to an additional US$10 million loan amount that can be used to facilitate funding in-licensing opportunities.

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. The Corporation 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, however USD denominated assets provide protection against fluctuations in USD denominated liabilities. As at April 30, 2023, a 5% increase/decrease in the USD/CAD would have a $1,904 (2022 - $1,373) impact on net loss and equity.

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

	April 30, 2023		October 31, 2022	
As at	**USD currency**	**CDN equivalent**	USD currency	CDN equivalent
Cash	**5,068**	**6,881**	11,120	15,177
Trade and other receivables	**377**	**511**	-	-
Prepaids	**126**	**171**	14	20
Accounts payable and accrued liabilities	**3,823**	**5,191**	1,026	1,401
Long-term debt	**29,820**	**40,490**	30,226	41,256

OCI would not be materially impacted in the above situation.

(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 exposure under its operating line of credit. Convertible and non-convertible debentures or long-term debt 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 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 last two fiscal years.

The Corporation sells its products through a small number of wholesalers and retail pharmacy chains. The Corporation has collection terms that vary based on the nature of products sold. Accordingly, when determining the percentage of receivables which are current, the Corporation considers all receivables under 30 days for Valeo Pharma Inc. and all receivables under 90 days for VPI Pharma Inc.

As at April 30, 2023, 77% (2022 - 94%) of trade accounts receivables were current and three customers accounted for 81% (2022 - 83%) of the trade receivables. The Corporation believes that there is no unusual exposure associated with the collection of these receivables.

(c) Liquidity risk

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

As at April 30, 2023	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Accounts payable, accrued liabilities, and provisions	**11,271**	**1,345**	**314**	**-**	**12,930**
Lease liability	**19**	**39**	**173**	**2,406**	**2,637**
Convertible debentures, including interest	**-**	**750**	**2,250**	**27,250**	**30,250**
Long-term debt, including interest and exit fees	**1,475**	**-**	**4,809**	**64,892**	**71,176**
	12,765	**2,134**	**7,546**	**94,548**	**116,993**

As at October 31, 2022	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Accounts payable, accrued liabilities, and provisions	10,964	1,779	100	-	12,843
Lease liability	16	35	170	2,589	2,810
Convertible debentures, including interest	-	750	3,027	28,750	32,527
Long-term debt, including interest and exit fees	1,300	-	4,380	67,799	73,479
	12,280	2,564	7,677	99,138	121,659

(d) Capital Structure Financial Policy

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

The Corporation manages the capital structure and adjusts it considering changes in economic conditions and the risk characte ristics 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 from its cash balance, out of its internally generated cash flows and the use of credit facilities when available. To maintain or adjust the capital structure, the Corporation will work to secure new debt or raise capital that would provide additional capital. As at April 30, 2023, the Corporation is not subject to any externally imposed capital requirements.

Risk Factors

For a detailed discussion of additional risk factors, please refer to the Corporation's latest Annual Information Form on SEDAR at www.sedar.com

Disclosure Controls and Procedures

The Corporation is committed to providing timely, accurate and balanced disclosure of all material information about the Corporation and to providing fair and equal access to such information. Management is responsible for establishing and maintaining its disclosure controls and procedures ("DC&P") to ensure that information used internally and disclosed externally is complete and reliable. Due to the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, within the Corporation have been detected. Management continues to evolve and enhance its system of controls and procedures. Management, after evaluating the effectiveness of the Corporation's DC&P as at April 30, 2023, have concluded that the Corporation's DC&P are adequate and effective to ensure that material information relating to the Corporation would have been known to them.

Internal Control Over Financial Reporting

The Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). The Corporation has designed ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS. For the six-month period ended April 30, 2023, management has evaluated the design and operating effectiveness of its ICFR as defined in NI 52-109. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the COSO. This evaluation was performed internally by the Corporation. Based on this evaluation, management concluded that the ICFR were appropriately designed, and no material weaknesses or significant deficiencies were noted, as at April 30, 2023. All control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that our DC&P or ICFR will prevent all errors or all fraud.

Disclosure of Outstanding Share Data

Valeo's authorized share capital consists of an unlimited number of Common Shares. As at June 13, 2023, Valeo had 84,378,071 Common Shares outstanding. In addition, a total of 43,294,377 Common Shares were issuable in accordance with the terms of convertible securities (including equity incentive compensation awards) issued by Valeo, and comprised of:

i. 21,739,132 Common Shares issuable upon conversion of the Convertible Debentures,
ii. 14,308,418 Common Shares issuable upon exercise of Warrants,
iii. 457,089 Common Shares issuable upon exercise of RSUs (assuming full vesting),
iv. 395,850 Common Shares issuable upon exercise of DSUs (assuming full vesting), and
v. 6,393,889 Common Shares issuable upon exercise of Options (assuming full vesting).

Interim Condensed Consolidated Financial Statements

(Unaudited)

Valeo Pharma Inc.

April 30, 2023
Second quarter fiscal year 2023

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

Valeo Pharma Inc.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)
(All amounts in thousands of Canadian dollars)

As at	Notes	April 30, 2023	October 31, 2022
ASSETS			
Current			
Cash		**10,119**	22,501
Trade and other receivables	*4*	**6,563**	5,428
Inventories	*5*	**13,554**	9,980
Prepaid expenses and deposits	*6*	**973**	2,620
Total current assets		**31,209**	40,529
Property and equipment	*7*	**1,626**	1,373
Right of use asset	*8*	**1,081**	881
Intangible assets	*9*	**14,447**	15,482
Total assets		**48,363**	58,265
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	*10*	**13,126**	12,458
Provisions	*11*	**1,345**	1,779
Lease liability	*12*	**46**	51
Convertible debentures	*13*	**-**	743
Derivative warrant liability	*14*	**-**	308
Total current liabilities		**14,517**	15,339
Lease liability	*12*	**1,341**	1,114
Convertible debentures	*13*	**21,006**	20,332
Long-term debt	*15*	**40,418**	39,201
Defined benefit obligations		**245**	127
Total liabilities		**77,527**	76,113
SHAREHOLDERS' EQUITY			
Share capital	*16*	**27,450**	26,359
Warrants	*16*	**2,926**	2,926
Contributed surplus		**5,000**	4,410
Equity component of convertible debentures		**2,989**	3,114
Accumulated other comprehensive loss		**(348)**	(201)
Deficit		**(67,181)**	(54,456)
Total shareholders' equity (deficit)		**(29,164)**	(17,848)
Total liabilities and shareholders' equity		**48,363**	58,265

Going concern (note 1); Related Party Transactions (note 23); Commitments (note 26);

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

The accompanying 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 information)
For the three- and six-month periods ended April 30, 2023 and 2022

		Three months ended April 30,		Six months ended April 30,	
	Notes	**2023**	2022	**2023**	2022
Revenues		**13,558**	4,768	**26,720**	9,009
Cost of goods sold	*18*	**9,112**	3,109	**18,545**	5,941
Gross Profit		**4,446**	1,659	**8,175**	3,068
Expenses					
Sales and marketing	*19*	**4,800**	3,539	**9,291**	7,420
General and administrative	*20*	**1,349**	964	**2,972**	2,229
Medical affairs and regulatory	*21*	**847**	814	**1,743**	1,804
Share based compensation	*16*	**228**	222	**747**	444
Profit sharing		**24**	32	**86**	43
Total operating expenses		**7,248**	5,571	**14,839**	11,940
Operating loss		**(2,802)**	(3,912)	**(6,664)**	(8,872)
Other expenses (income)					
Financial, net	*13,15,22*	**3,886**	1,169	**6,369**	2,159
Unrealized loss (gain) on derivative warrant liability	*14*	**(211)**	17	**(308)**	19
Total other expenses		**3,675**	1,186	**6,061**	2,178
Net loss for the period		**(6,477)**	(5,098)	**(12,725)**	(11,050)
Other comprehensive income (loss)					
Exchange differences on translating foreign operations		**(2)**	(2)	**1**	(4)
Defined benefit plan, net actuarial (loss) gain		**(148)**	74	**(148)**	74
Total comprehensive loss for the period		**(6,627)**	(5,026)	**(12,872)**	(10,980)
Loss per share:					
Basic and diluted		**(0.08)**	(0.06)	**(0.15)**	(0.14)
Weighted average number of shares outstanding		**83,745,778**	80,661,530	**83,682,708**	79,721,375

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

Valeo Pharma Inc.

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

(All amounts in thousands of Canadian dollars)
For the six months ended April 30, 2023 and 2022

	Notes	Share Capital	Warrants	Contributed surplus	Equity component convertible debenture	Accumulated Other Comprehensive Loss: Defined benefit plan	Accumulated Other Comprehensive Loss: Foreign exchange translation	Deficit	Total
Balance as at October 31, 2021		24,616	3,769	2,397	300	(294)	(25)	(28,710)	2,053
Net loss		-	-	-	-	-	-	(10,961)	(10,961)
Other comprehensive income		-	-	-	-	74	(4)	-	70
Share based compensation		-	-	444	-	-	-	-	444
Stock options exercised		123	-	(43)	-	-	-	-	80
Equity instruments issued to consultants		34	-	-	-	-	-	-	34
Broker's compensation units expired		93	9	(102)	-	-	-	-	-
Convertible debentures issued		-	-	-	4,431	-	-	-	4,431
Convertible debentures converted		1,121	-	-	(175)	-	-	-	946
Issue costs		(267)	-	-	-	-	-	-	(267)
Balance as at April 30, 2022		25,720	3,778	2,696	4,556	(220)	(29)	(39,671)	(3,170)
Balance as at October 31, 2022		**26,359**	**2,926**	**4,410**	**3,114**	**(163)**	**(38)**	**(54,456)**	**(17,848)**
Net loss		-	-	-	-	-	-	(12,725)	**(12,725)**
Other comprehensive loss		-	-	-	-	(148)	1	-	**(147)**
Share based compensation	*16*	157	-	590	-	-	-	-	**747**
Convertible debentures converted	*13b*	934	-	-	(125)	-	-	-	**809**
Balance as at April 30, 2023		**27,450**	**2,926**	**5,000**	**2,989**	**(311)**	**(37)**	**(67,181)**	**(29,164)**

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

Valeo Pharma Inc.

Interim Condensed Consolidated Statements of Cash Flow
(Unaudited)
(All amounts in thousands of Canadian dollars)
For the three- and six-month periods ended April 30, 2023 and 2022

		Three months ended April 30,		Six months ended April 30,	
	Notes	**2023**	2022	**2023**	2022
OPERATING ACTIVITIES:					
Net loss from operations		**(6,477)**	(5,098)	**(12,725)**	(11,050)
Adjustments:					
Depreciation and amortization	*7,8,9*	**628**	250	**1,245**	508
Share based compensation	*16*	**228**	222	**747**	444
Interest expense	*13,15,22*	**1,124**	139	**2,304**	807
Interest in the form of royalty		**29**	-	**52**	-
Consulting fees paid by issuance of equity instruments		**-**	-	**-**	34
Defined benefit pension plan expense		**(10)**	(6)	**(30)**	(16)
Unrealized loss (gain) on foreign exchange		**547**	(48)	**(87)**	45
Unrealized loss (gain) on derivative warrant liability	*14*	**(211)**	17	**(308)**	19
Write down of inventories	*18*	**79**	7	**96**	-
Net change in non-cash working capital	*17*	**3,389**	(1,678)	**(3,060)**	(6,039)
Cash used by operating activities		**(674)**	(6,195)	**(11,766)**	(15,248)
INVESTING ACTIVITIES:					
Acquisition of property and equipment	*7*	**(237)**	(118)	**(338)**	(257)
Acquisition of intangible assets	*9*	**-**	(14)	**(75)**	(32)
Cash used by investing activities		**(237)**	(132)	**(413)**	(289)
FINANCING ACTIVITIES:					
Principal repayment of lease liabilities	*12*	**(57)**	(47)	**(107)**	(94)
Increase in convertible debentures	*13*	**-**	-	**-**	25,000
Repayment of non-convertible debentures		**-**	(557)	**-**	(4,807)
Financing fees		**-**	(39)	**-**	(1,505)
Proceeds from issuance of shares		**-**	80	**-**	80
Cash provided by financing activities		**(57)**	(563)	**(107)**	18,674
Foreign exchange gain (loss) on cash		**133**	23	**(96)**	46
Increase (decrease) in cash		**(835)**	(6,867)	**(12,382)**	3,183
Cash, beginning of period		**10,954**	12,093	**22,501**	2,043
Cash, end of period		**10,119**	5,226	**10,119**	5,226

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

1. Presentation of Financial Statements and Going Concern

Description of the Business

Valeo Pharma Inc. ("Valeo" or the "Corporation") is a specialty pharmaceutical company that acquires, or in-licenses branded pharmaceuticals and hospital specialty products for sale in Canada. 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. Valeo's shares and debentures are traded on the Toronto Stock Exchange (TSX) under the symbol VPH and VPH.DB. The Corporation's shares are also listed on the Frankfurt Stock Exchange ("FSE") under the symbol VP2 and on the US OTCQB market under the symbol VPHIF.

Statement of Compliance

These unaudited interim condensed consolidated financial statements of the Corporation have been prepared for the six-month period ended April 30, 2023 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and were approved and authorized for issuance by the Board of Directors of the Corporation on June 13, 2023. 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, 2022 as they follow the same accounting policies and methods of application.

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 Corporation is in the process of ramping up its activities and has not yet achieved profitability. During the six-month period ended April 30, 2023, the Corporation incurred a net loss of $12,725 and used cash in operations of $11,766. As at April 30, 2023, the Corporation had a working capital surplus of $16,692. This raises significant doubt about the Corporation's ability to continue as a going concern.

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

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

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

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

Basis of measurement

These unaudited interim condensed consolidated financial statements have been prepared on a going-concern basis, under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value including the derivative warrant liability.

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

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 2022 audited annual consolidated financial statements and are still applicable for the six-month period ended April 30, 2023.

4. Trade and Other Receivables

As at	**April 30, 2023**	October 31, 2022
Trade and other receivables	**6,360**	5,225
Sales taxes receivables	**203**	203
	6,563	5,428

5. Inventories

As at	**April 30, 2023**	October 31, 2022
Finished goods	**13,519**	9,980
Raw material	**35**	-
	13,554	9,980

6. Prepaids Expenses and Deposits

As at	**April 30, 2023**	October 31, 2022
Vendor deposit	**-**	2,012
Other prepaid expenses and deposits	**973**	608
	973	2,620

7. Property and Equipment

	Leasehold improvements	**Computer equipment**	**Equipment and furniture**	**Total**
Cost as at October 31, 2022	950	642	503	2,095
Additions	194	67	77	338
Cost as at April 30, 2023	**1,144**	**709**	**580**	**2,433**
Accumulated depreciation as at October 31, 2022	219	294	209	722
Depreciation	37	24	24	85
Accumulated depreciation as at April 30, 2023	**256**	**318**	**233**	**807**
Net carrying value as at April 30, 2023	**888**	**391**	**347**	**1,626**

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

8. Right of Use Asset

	Cost	Depreciation	Carrying value
Balance as at October 31, 2022	1,003	(122)	881
Additions	250	(50)	200
Balance as at April 30, 2023	**1,253**	**(172)**	**1,081**

9. Intangible Assets

	Submission costs	License fee	Software	Total
Balance as at October 31, 2022	1,869	13,613	-	15,482
Additions	-	-	75	75
Amortization	(119)	(985)	(6)	(1,110)
Balance as at April 30, 2023	**1,750**	**12,628**	**69**	**14,447**

10. Accounts Payable and Accrued Liabilities

As at	April 30, 2023	October 31, 2022
Trade accounts payable	**8,371**	3,737
License fee payable	**-**	5,000
Other accounts payable and accrued liabilities	**3,027**	2,206
Accrued interest	**1,541**	1,394
Payables to related parties	**187**	121
	13,126	12,458

11. Provisions

The following table presents the changes in the provision for pricing rebates and chargebacks during the period:

	Total
Balance as at October 31, 2022	1,779
Charges	2,518
Utilization	(2,952)
Balance as at April 30, 2023	**1,345**

12. Lease Liability

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

	Six months ended April 30, 2023	Year ended October 31, 2022
Balance as at October 31, 2022	**1,165**	1,210
Lease addition	**250**	-
Interest expense	**79**	143
Lease payments	**(107)**	(188)
Balance as at April 30, 2023	**1,387**	1,165
Which consists of		
Current lease liability	**46**	51
Non-current lease liability	**1,341**	1,114

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

13. Convertible Debentures

	Notes	**Six months ended April 30, 2023**	Year ended October 31, 2022
Balance as at October 31, 2022		**21,075**	1,605
Additions		**-**	25,000
Fair value of conversion option allocated to equity		**-**	(4,431)
Transaction costs		**-**	(1,243)
Transaction costs amortization		**188**	278
Accretion expense	*a*	**511**	810
Conversion into shares	*b*	**(768)**	(944)
Balance as at April 30, 2023		**21,006**	21,075
Which consists of			
Current convertible debentures		**-**	743
Non-current convertible debentures		**21,006**	20,332

a. During the six-month period ended April 30, 2023, all convertible debentures incurred interest of $2,039 included in financial expense on the statement of loss. This amount includes an accretion expense of $511.

As at April 30, 2023, a total of $244 is included in accrued interest on the statement of financial position.

During the year ended October 31, 2022, all convertible debentures incurred interest of $3,618 included in financial expense on the statement of loss. This amount includes an accretion expense of $810.

As at October 31, 2022, a total of $258 is included in accrued interest on the statement of financial position.

b. During the second quarter ended April 30, 2023, $768 of convertible debentures issued in February 2020 and March 2020, $125 of equity component and $41 of interest payable were converted into $934 of share capital.

14. Derivative Warrant Liability

The following table details the changes in the Corporation's derivatives warrant liability:

	Notes	**Number**	**$**
Balance as at October 31, 2022		1,336,700	308
Revaluation of derivative warrant liability	*a*	-	(97)
Warrant expired	*b*	(1,336,700)	(211)
Balance as at April 30, 2023		-	-

a. During the six-month period quarter ended April 30, 2023, the revaluation of derivative warrant liability was performed using a Black-Scholes option pricing model.

b. On April 26, 2023, 1,336,700 warrants were expired and a total of $211 is included in unrealized loss on derivative warrant liability on the statement of loss.

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

15. Long-term Debt

	Notes	**Six months ended April 30 , 2023**	Year ended October 31, 2022
Balance as at October 31, 2022		**39,201**	-
Additions from total financing proceeds		**-**	38,472
Fair value of warrants allocated to equity		**-**	(447)
Transaction costs		**-**	(2,007)
Transaction costs amortization		**157**	78
Accretion expense	*a*	**1,200**	618
Interest in the form of royalty		**14**	164
Estimate revision on interest in the form of royalty	*b*	**38**	-
Foreign exchange difference		**(192)**	2,323
Balance as at April 30, 2023		**40,418**	39,201

a. During the six-month period ended April 30, 2023, the debt incurred interest of $3,725 included in financial expense on the statement of loss. This amount includes an accretion expense of $1,200.

As at April 30, 2023, a total of $1,297 is included in accrued interest on the statement of financial position.

During the year ended October 31, 2022, the debt accrued interest of $1,754 included in financial expense on the statement of loss. This amount includes an accretion expense of $618.

As at October 31, 2022, a total of $1,136 is included in accrued interest on the statement of financial position.

b. As at April 30, 2023, the Corporation adjusted the carrying value of the long-term debt by $38 to reflect the actual royalty calculated during the period as compared to the initial estimate. This amount is classified within financial expenses in the statement of loss.

16. Share Capital and Other Equity Instruments

a) Share Capital

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

	Number	**$**
Balance as at October 31, 2021	78,800,174	24,616
Shares issue costs	-	(267)
Exercice of stock options	200,000	123
Conversion of debentures	2,603,419	1,121
Compensation options expired	-	93
Shares issued as compensation	45,505	34
Balance as at April 30, 2022	81,649,098	25,720
Balance as at October 31, 2022	**82,190,348**	**26,359**
Conversion of debentures	1,936,797	934
Shares issued as compensation	250,926	157
Balance as at April 30, 2023	**84,378,071**	**27,450**

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

16. Share Capital and Other Equity Instruments – cont'd

b) Share Option Issuance and Compensation Expense

The Corporation has an equity-settled stock option incentive plan (the "Plan") for directors, officers, employees, and consultants 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, director or officer, the Board of Directors may extend the period during which the optionee may exercise the options provided such period does not exceed three months from termination of employment or duties as director. The number of shares subject to an option shall not exceed 10% of the total issued and outstanding Common shares; and no one optionee shall be granted options that exceed 5%, 2% for any one consultant and 2% for any one person retained to provide investor relation services of the issued and outstanding common shares of the Corporation (on a non-diluted basis) at any point in time.

Changes in outstanding options were as follows:

	Six months ended April 30, 2023		Year ended October 31, 2022	
	Number	**Weighted Average Exercise Price**	Number	Weighted Average Exercise Price
Options outstanding, beginning of period	**7,287,222**	**$0.82**	6,544,722	$0.84
Granted	**2,045,000**	**$0.66**	1,592,500	$0.66
Forfeited	**-**	**-**	(165,000)	$0.76
Cancelled/expired during the period	**(2,233,333)**	**$1.36**	(428,750)	$0.88
Exercised	**-**	**-**	(256,250)	$0.40
Options outstanding, end of period	**7,098,889**	**$0.60**	7,287,222	$0.82
Options exercisable, end of period	**3,721,808**	**$0.53**	3,973,056	$0.65

The following options were granted in the six months ended April 30, 2023:

Number	Notes	Date of grant	Expiry date	Exercise price	Fair value
1,865,000	i	March 15, 2023	March 15, 2030	$0.66	$0.37
180,000	ii	April 24, 2023	April 24, 2030	$0.66	$0.37

i) Vest 50% on first two anniversary date of grant
ii) Vest 33% on first three anniversary date of grant

363,750 options vested during the six months ended April 30, 2023 (2022 – 275,141).

The expected stock price volatility was estimated by using historical data from public companies in the same sector as the Corporation and over the period consistent with the duration of the award. The total share-based compensation expense for the six months ended April 30, 2023 was $266 (2022 - $345) and recognized in contributed surplus reported in the statement of loss. Based on the Corporation's experience since introducing its stock options program, the forfeiture rate is at 10%.

c) Restricted Stock Units (RSUs)

On April 28, 2021, the Shareholders of the Corporation approved the implementation of an RSU equity incentive plan (the "RSU Plan"), which provides for the granting to directors, officers, employees and consultants of the Corporation ("Eligible Participants") non-transferable Restricted Share Units, Performance Share Units, Deferred Share Units, or Other Share-Based Awards, or any combination thereof (the "RSU Awards"). The purpose of this RSU Plan is to allow for certain discretionary bonuses and similar awards as an incentive and reward for selected Eligible Participants related to the achievement of long-term financial and strategic objectives of the Corporation and the resulting increases in shareholder value. This RSU Plan is intended to promote a greater alignment of interests between the shareholders of the Corporation and the selected Eligible Participants by providing an opportunity to acquire Shares as long-term investments and equity interests in the Corporation. The number of Shares reserved for issuance and which will be available for issuance pursuant to Awards granted under the RSU Plan will equal 5% of the issued and outstanding Shares of the Corporation from time to time, provided that the aggregate number of Shares available for issuance to insider participants under this RSU Plan, together with all other equity incentive plans of the Corporation (including its Share Option Plan) to such insiders, may not exceed 10% of the issued Shares at any given time.

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

16. Share Capital and Other Equity Instruments – cont'd

The following schedule presents the RSUs issued at the end of the respective periods:

	Number of RSUs	Weighted average exercise price
Balance as at October 31, 2022	681,229	$0.96
Granted	26,786	$0.56
Exercised	(250,926)	$0.71
Balance as at April 30, 2023	**457,089**	**$1.06**

The following RSUs were granted during the six months ended April 30, 2023:

Date of grant	Number of RSUs	Vesting terms	Market price at time of grant
January 27, 2023	26,786	50% on November 1, 2023 50% on February 1, 2024	$0.56

d) Deferred Stock Units (DSUs)

On January 27, 2023, the Shareholders of the Corporation approved the implementation of a DSU equity incentive plan (the "DSU Plan"), which provides for the granting to directors, officers, employees and consultants of the Corporation ("Recipient") non-transferable Restricted Share Units, Performance Share Units, Deferred Share Units, or Other Share-Based Awards, or any combination thereof (the "DSU Awards"). The purpose of this DSU Plan is to allow for certain discretionary bonuses and similar awards as an incentive and reward for selected Recipient. DSUs vest on grant and will be settled by the issuance of shares at a date to be determined by the Recipient, provided that such date must occur between (a) the date of Separation from Service and (b) December 31st of the calendar year commencing after the Separation from Service. "Separation from Service" occurs upon (i) termination or resignation (ii) retirement or (iii) death, of the Recipient.

The following schedule presents the DSUs issued at the end of the respective periods:

	Number of DSUs	Weighted average exercise price
Balance as at October 31, 2022	-	-
Granted	395,850	$0.56
Balance as at April 30, 2023	**395,850**	**$0.56**

e) Warrants

During the six-month period ended April 30, 2023, nil warrants were issued, expired and exercised. As at April 30, 2023, 12,768,418 warrants were outstanding with a weighted average exercise price of $1.19.

f) Compensation Options

During the six-month period ended April 30, 2023, nil compensation options were issued, expired and exercised. As at April 30, 2023, 770,000 compensation options were outstanding with a weighted average exercise price of $1.25.

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

17. Other Cash Flow Information

Net change in non-cash working capital

	Three months ended April 30,		Six months ended April 30,	
	2023	2022	**2023**	2022
(Increase) decrease in				
trade and other receivables	**(2,507)**	(389)	**(1,135)**	(493)
inventories	**825**	(1,171)	**(3,670)**	(135)
prepaid expenses and deposits	**(196)**	95	**1,645**	304
Increase (decrease) in				
accounts payable and accrued liabilities	**5,982**	(153)	**534**	(5,530)
provisions	**(715)**	(60)	**(434)**	(185)
	3,389	(1,678)	**(3,060)**	(6,039)

18. Cost of Goods Sold

	Three months ended April 30,		Six months ended April 30,	
	2023	2022	**2023**	2022
Finished goods	**8,204**	2,836	**16,824**	5,396
Freight, storage and distribution fees	**330**	142	**633**	298
Amortization of intangible assets	**499**	124	**992**	247
Write down of inventories	**79**	7	**96**	-
	9,112	3,109	**18,545**	5,941

19. Sales and Marketing Expenses

	Three months ended April 30,		Six months ended April 30,	
	2023	2022	**2023**	2022
Employee compensation	**3,474**	2,341	**6,528**	4,894
Sales expenses	**710**	745	**1,299**	1,246
Marketing expenses	**616**	453	**1,464**	1,280
	4,800	3,539	**9,291**	7,420

20. General and Administrative Expenses

	Three months ended April 30,		Six months ended April 30,	
	2023	2022	**2023**	2022
Employee compensation	**571**	537	**1,555**	1,148
Administrative expenses	**731**	365	**1,305**	961
Depreciation of property and equipment	**43**	40	**85**	77
Depreciation of right of use asset	**27**	22	**50**	43
Service income	**(23)**	-	**(23)**	-
	1,349	964	**2,972**	2,229

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

21. Medical Affairs and Regulatory Expenses

	Three months ended April 30,		Six months ended April 30,	
	2023	2022	**2023**	2022
Employee compensation	**455**	418	**891**	861
Patient support programs	**191**	138	**213**	275
Advisory boards and other expenses	**180**	225	**592**	582
Amortization of intangible assets	**59**	64	**118**	141
Service income	**(38)**	(31)	**(71)**	(55)
	847	814	**1,743**	1,804

22. Financial, net

	Three months ended April 30,		Six months ended April 30,	
	2023	2022	**2023**	2022
Interest on debentures	**1,010**	888	**1,528**	1,468
Effective interest on debentures	**352**	274	**699**	598
Interest on long-term debt	**1,043**	-	**2,525**	-
Effective interest on long-term debt	**678**	-	**1,357**	-
Interest in the form of royalty	**177**	-	**343**	-
Estimate revision on interest in the form of royalty	**20**	-	**39**	-
Lease interest	**42**	36	**79**	72
Bank and other interest	**11**	-	**11**	26
Bank charges	**6**	11	**18**	23
Foreign exchange loss (gain)	**575**	(31)	**(125)**	(13)
Interest income	**(28)**	(9)	**(105)**	(15)
	3,886	1,169	**6,369**	2,159

23. Related Party Transactions

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

	Three months ended April 30,		Six months ended April 30,	
	2023	2022	**2023**	2022
Key management salary and benefits	**325**	367	**1,047**	962
Directors and employee stock option compensation	**228**	222	**747**	444
Consulting fees paid to a company controlled by an officer	**79**	59	**154**	146
Service income	**23**	-	**23**	-

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

As at	**April 30, 2023**	October 31, 2022
Amounts owed to key management, officers and directors		
Consulting fees	**24**	20
Expenses incurred in the normal course of business	**1**	-
Convertible debentures	**231**	486
Accrued interest on convertible debentures	**3**	8
Amounts owed to 100079 Canada Inc., a shareholder of the Corporation		
Convertible debentures	**1,343**	1,313
Accrued interest on convertible debentures	**15**	15
Amounts owed from ChitogenX Inc., a corporation with common shareholders		
Service income	**23**	48

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

24. Financial Instruments

Short term financial instruments, comprising cash, trade and other receivables, accounts payable and accrued liabilities are carried at amortized cost, which, due to their short-term nature, approximates their fair value. Long term financial instruments consisting of convertible debentures and long-term debt are accounted for at amortized cost using the effective interest rate method, which corresponds to the fair value. The Corporation categorizes its financial assets and liabilities measured at the fair value in to one of three different levels depending on the observation of the inputs used in the measurement. There were no transfers between levels during the period. The three levels are defined as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.

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

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

The fair value of a financial instrument is approximated by the consideration that would be agreed to in an arm's length transaction between willing parties and through appropriate valuation methods, but considerable judgement is required for the Corporation to determine the value. The actual amount that could be realized in a current market exchange could be different than the estimated value. The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow and fair value interest rate risk); credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on the Corporation's financial performance. The Corporation does not use derivative financial instruments to hedge these risks.

25. 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. The Corporation 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, however USD denominated assets provide protection against fluctuations in USD denominated liabilities. As at April 30, 2023, a 5% increase/decrease in the USD/CAD would have a $1,904 (2022 - $1,373) impact on net loss and equity.

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

	April 30, 2023		October 31, 2022	
As at	**USD currency**	**CDN equivalent**	USD currency	CDN equivalent
Cash	**5,068**	**6,881**	11,120	15,177
Trade and other receivables	**377**	**511**	-	-
Prepaids	**126**	**171**	14	20
Accounts payable and accrued liabilities	**3,823**	**5,191**	1,026	1,401
Long-term debt	**29,820**	**40,490**	30,226	41,256

OCI would not be materially impacted in the above situation.

(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 exposure under its senior debt facility. Convertible debentures or long-term debts negotiated at a fixed rate expose the Corporation to fair value interest rate risk.

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

25. Financial Risk Factors – cont'd

(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 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 last two fiscal years.

The Corporation sells its products through a small number of wholesalers and retail pharmacy chains. The Corporation has collection terms that vary based on the nature of products sold. Accordingly, when determining the percentage of receivables which are current, the Corporation considers all receivables under 30 days for Valeo Pharma Inc. and all receivables under 90 days for VPI Pharma Inc.

As at April 30, 2023, 77% (2022 - 94%) of trade accounts receivables were current and three customers accounted for 81% (2022 - 83%) of the trade receivables. The Corporation believes that there is no unusual exposure associated with the collection of these receivables.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The contractual maturities of financial liabilities are as follows:

As at April 30, 2023	**Less than 30 days**	**30 days to 3 months**	**3 months to 12 months**	**More than 12 months**	**Total**
Accounts payable, accrued liabilities, and provisions	**11,271**	**1,345**	**314**	**-**	**12,930**
Lease liability	**19**	**39**	**173**	**2,406**	**2,637**
Convertible debentures, including interest	**-**	**750**	**2,250**	**27,250**	**30,250**
Long-term debt, including interest and exit fees	**1,475**	**-**	**4,809**	**64,892**	**71,176**
	12,765	**2,134**	**7,546**	**94,548**	**116,993**

As at October 31, 2022	Less than 30 days	30 days to 3 months	3 months to 12 months	More than 12 months	Total
Accounts payable, accrued liabilities, and provisions	10,964	1,779	100	-	12,843
Lease liability	16	35	170	2,589	2,810
Convertible debentures, including interest	-	750	3,027	28,750	32,527
Long-term debt, including interest and exit fees	1,300	-	4,380	67,799	73,479
	12,280	2,564	7,677	99,138	121,659

(d) Capital Structure Financial Policy

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

The Corporation manages the capital structure and adjusts 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 from its cash balance, out of its internally generated cash flows and the use of credit facilities when available. To maintain or adjust the capital structure, the Corporation will work to secure new debt or raise capital that would provide additional capital. As at April 30, 2023, the Corporation is not subject to any externally imposed capital requirements.

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

26. Commitments

(i) Lease obligation

The Corporation leases its premises. The current lease will expire in August 2029. The Corporation has an option to further extend the lease up to August 2034. The Corporation is expecting to exercise its option. On July 4, 2022, the Corporation entered into a lease agreement for additional premises bearing civic address 16,663 Hymus Blvd. having a surface area of 4,385 square feet. As per IFRS 16, the right-of-use asset and the lease liability was recorded when the lease started on January 1, 2023.

The yearly contractual undiscounted lease obligation payments are as follows:

	$
2023	101
2024 to 2029	206
2030	226
2031	260
2032	270
2033	280
2034	240
Total	**2,613**

(ii) Licensing agreements

Milestones:

Under certain agreements, the Corporation may have to pay additional consideration should it achieve certain sales volumes or if certain milestones are met. As at April 30, 2023, management estimates the likelihood of paying such milestones to be remote.

Royalty and profit sharing:

Under certain licensing or distribution agreements, the Corporation is required to pay annual royalty payments of up to 10% of aggregate Net Sales levels achieved during the year. Furthermore, certain agreements require the Corporation to make profit sharing payments ranging from 2.5% to 17% of net profits as defined in the respective agreement.