AEQUUS PHARMACEUTICALS INC.

// CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Aequus Pharmaceuticals Inc.

Opinion

We have audited the consolidated financial statements of Aequus Pharmaceuticals Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficit) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has incurred losses and negative operating cash flows since inception and the Company's ability to continue its operations is dependent on its ability to raise additional equity financing and to generate operational cash flow from commercial services revenue. As stated in Note 1 in the consolidated financial statements, these events and conditions, along with other matters as set forth in Note 1 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is David J. Goertz.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

April 28, 2020

// CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian dollars

	Note	December 31, 2019 $	December 31, 2018 $
ASSETS			
Current			
Cash and cash equivalents	4	484,506	369,892
Inventory		5,429	12,693
Amounts receivable		556,296	731,151
Prepaid expenses and deposit	5	61,503	121,336
		1,107,734	1,235,072
Property and equipment	6	11,093	28,135
Intangible assets, net	7	84,795	733,324
Right of use lease asset, net	8	469,049	-
Total assets		1,672,671	1,996,531
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable	11	249,528	268,652
Accrued liabilities		83,000	46,245
Lease liability – current	9	143,520	-
		476,048	314,897
Lease liability	9	308,353	-
Convertible debt, net	10	1,765,364	-
Total liabilities		2,549,765	314,897
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	12	19,082,670	18,934,573
Contributed surplus		3,694,766	3,297,163
Deficit		(23,654,530)	(20,550,102)
Total shareholders' equity (deficit)		(877,094)	1,681,634
Total liabilities and shareholders' equity (deficit)		1,672,671	1,996,531

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 13)
Subsequent events (Note 18)

These consolidated financial statements were approved for issue by the Board of Directors on April 28, 2020 and signed on its behalf by:

"Douglas Janzen"
Director

"Christopher Clark"
Director

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

// CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Expressed in Canadian dollars

	Note	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Revenue		1,632,524	1,410,240
Expenses			
Research and development	14	210,827	526,935
Sales and marketing	14	1,857,478	1,646,076
General administration	14	2,200,779	2,045,258
		4,269,084	4,218,269
Loss before other income (loss)		(2,636,560)	(2,808,029)
Other income (loss)			
Interest income	4	9,481	5,312
Foreign exchange loss		(85)	(1,023)
Impairment of intangible asset	7	(478,940)	-
		(469,544)	4,289
Net loss and comprehensive loss		(3,106,104)	(2,803,740)
Basic and diluted loss per common share		(0.04)	(0.04)
Weighted average number of common shares outstanding – basic and diluted		80,427,578	75,641,511

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

// CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

Expressed in Canadian dollars

	Common Shares		Contributed Surplus	Deficit	Total
	Number	$	$	$	$
Balance, December 31, 2017	71,351,138	17,095,063	2,956,312	(17,746,362)	2,305,013
Shares issued for cash pursuant to financing	8,875,000	1,875,000	-	-	1,875,000
Share issue costs	-	(98,351)	13,799	-	(84,552)
Shares issued for services	210,832	62,861	-	-	62,861
Share based payments	-	-	327,052	-	327,052
Net loss	-	-	-	(2,803,740)	(2,803,740)
Balance, December 31, 2018	80,436,970	18,934,573	3,297,163	(20,550,102)	1,681,634
Warrants exercised	1,000	220	-	-	220
Issuance of convertible debt	-	147,877	79,626	-	227,503
Broker warrants	-	-	116,973	-	116,973
Share based payments	-	-	201,004	-	201,004
Adjustment on adaptation of IFRS 16 (Note 3)	-	-	-	1,676	1,676
Net loss	-	-	-	(3,106,104)	(3,106,104)
Balance, December 31, 2019	80,437,970	19,082,670	3,694,766	(23,654,530)	(877,094)

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

// CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
OPERATING ACTIVITIES		
Net loss	(3,106,104)	(2,803,740)
Add items not affecting cash:		
Convertible debt accretion expense	223,428	-
Depreciation of property and equipment	19,721	18,204
Depreciation of intangible assets	169,589	169,589
Depreciation of right of use asset	119,757	-
Impairment of intangible asset	478,940	-
Interest expense	47,763	-
Share-based payments	201,004	346,030
Shares issued for services	-	62,861
	(1,845,902)	(2,207,056)
Changes in non-cash working capital items relating to operations:		
Amounts receivable	174,855	(301,087)
Inventory	7,264	(12,693)
Prepaid expenses and deposit	16,957	(935)
Accounts payable and accrued liabilities	17,634	(51,939)
Cash used in operating activities	(1,629,192)	(2,573,710)
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,679)	(11,364)
Cash used in investing activities	(2,679)	(11,364)
FINANCING ACTIVITY		
Issuance of common shares, net of issuance costs	220	1,790,448
Issuance of convertible debt, net of issuance costs	1,886,412	-
Payments of lease obligation	(140,147)	-
Cash provided by financing activities	1,746,485	1,790,448
Increase (Decrease) in cash and cash equivalents	114,614	(794,626)
Cash and cash equivalents, beginning	369,892	473,242
Cash and cash equivalents, ending	484,506	369,892
Non-cash transactions:		
Fair value of brokers' warrants	116,973	13,799
Fair value of securities issued for services	-	(62,861)

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

1. NATURE OF OPERATIONS AND GOING CONCERN //

Aequus Pharmaceuticals Inc. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on January 3, 2013 and is a public company listed on the TSX Venture Exchange (the "Exchange") under the symbol "AQS". The Company is a specialty pharmaceutical company with a sales force that markets third party products for which the Company receives revenues based on agreed upon percentages of net sales. The company also has a portfolio of internally developed clinical stage reformulated products.

The Company's registered and records office is located at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3 and its head office is located at Suite 2820, 200 Granville Street, Vancouver, British Columbia, Canada, V6C 1S4.

These consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown, and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The Company has incurred losses and negative operating cash flows since its inception. As of December 31, 2019, the Company has accumulated a deficit of $23,654,530 (2018 - $20,550,102). The Company will require further financing to meet its financial obligations and sustain its operations in the normal course of the business. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to meet its long-term business strategy depends on its ability to obtain additional equity financing and to generate operational cash flow from commercial services revenue.

2. BASIS OF PRESENTATION //

[a] Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") an interpretation issued by the International Reporting Interpretation Committee ("IFRIC") effective for the year ended December 31, 2019. These consolidated financial statements were approved by the Company's Board of Directors on April 28, 2020.

[b] Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value.

[c] Functional and foreign currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end rate of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company reviews its estimates and underlying assumptions on an ongoing basis.

CRITICAL JUDGMENTS

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

i. Research costs are recognized as an expense when incurred but development costs may be capitalized as intangible assets if certain conditions are met as described in IAS 38, *Intangible Assets*. Management has determined that development costs do not meet the conditions for capitalization under IAS 38 and all research and development costs have been expensed.

ii. Management is required to assess the functional currency of the Company and its subsidiary. In concluding that the Canadian dollar is the functional currency of the Company and its subsidiary, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the Company and its subsidiary operate.

iii. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

iv. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as current working capital balance and future commitments of the Company.

ESTIMATION UNCERTAINTY

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

ESTIMATION UNCERTAINTY (CONTINUED)

ii. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

iii. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management's best estimate of the useful life of the intangible assets. Determination of impairment loss is subject to management's assessment if there is any indication of a possible write-down; and if so, the determination of recoverable value based on discounted future cash flows of the intangible assets. The carrying amount of intangible assets does not necessarily reflect present or future value and the ultimate amount recoverable will be dependent upon the successful commercialization of products based on these underlying technologies.

iv. Revenues are recognized based on a calculation of estimated profits using actual third-party sales figures. Changes in estimates of revenues, including changes in estimates of revenue due to returns, are recognized prospectively as adjustments to revenue and amounts receivable. When an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense. At each reporting period the entity reviews and, when necessary, revises the estimates of revenue as services are performed.

3. SIGNIFICANT ACCOUNTING POLICIES //

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below which have been applied to all the years presented, unless otherwise stated.

[a] Changes in Accounting Policies - Lease

The Company adopted the requirements of IFRS 16 effective January 1, 2019. This new standard replaces IAS 17 Leases and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased.

For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current accounting for finance leases, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is substantially unchanged.

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On adoption, the Company's lease consisted of an office lease. The Company transitioned to the new standard using the modified retrospective approach and:

- Measured the lease liability based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate at January 1, 2019;
- Measured the right-of-use asset as if IFRS 16 had been applied since the commencement date, but discounted using the Company's incremental borrowing rate at January 1, 2019; and
- Recording the cumulative difference to deficit.

The net impact on deficit on January 1, 2019 was a decrease of $1,676.

The following is a reconciliation of total operating lease commitments at December 31, 2018 to the lease liabilities recognized at January 1, 2019:

	$
Lease liabilities before discounting	681,470
Discounted using incremental borrowing rate	(137,214)
Lease liability	544,256

The following is a reconciliation of lease liabilities to right of use lease asset at January 1, 2019:

	$
Lease liability at January 1, 2019	544,256
Prepaid lease payment	42,877
Lease payments prior to January 1, 2019	11,653
Depreciation prior to January 1, 2019	(9,980)
Right of use lease asset at January 1, 2019	588,806

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

i. the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
ii. the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
iii. the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

(i) Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the balance sheet. The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Measurement and recognition of leases as a lessee (continued)

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available. If the interest rate implicit in the lease is not readily available, the Company discounts using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term. On the statement of financial position, right-of-use assets have been included under non-current assets and lease liabilities have been included under current and non-current liabilities.

[b] Revenue from Contracts with Customers

Revenue is recognized based on a five-step model:

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the performance obligations are satisfied.

The following is the Company's accounting policy for revenue under IFRS 15:

The Company earns service revenues based on a proportion of a third party's net product sales net of allowances for returns. The Company recognizes service revenues when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Service revenue is recognized based on actual third-party sales of products for the reporting period when collectability is certain. Service revenues recognized are estimated based on actual third-party sales for the period net of estimated costs multiplied by the contractual proportionate allocation.

Revenues from product sales are recognized when the risks and rewards of ownership pass to the buyer, collection is reasonably assured and the price is reasonably determinable. Revenue generally is recognized net of allowances for returns and any taxes collected from customers and subsequently remitted to governmental authorities. The Company calculates an allowance for returns based on historical information.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[c] Financial instruments

The following is the Company's accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL.

For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash and cash equivalents	FVTPL	FVTPL
Amounts receivable	Amortized cost	Amortized cost
Accounts payable	Amortized cost	Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders' equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated other comprehensive income on January 1, 2018.

(ii) Measurement

Financial assets and liabilities at amortized cost:

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL:

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[c] Financial instruments (continued)

(iii) Impairment of financial assets at amortized cost.

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss.

[d] Consolidation

These consolidated financial statements include the accounts of the Company's wholly-owned subsidiary Aequus Pharma (Canada) Ltd., formerly TeOra Health Ltd. ("TeOra"), incorporated under the Business Corporations Act (Ontario). All significant intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

[e] Cash and cash equivalents

Cash and cash equivalents consist of cash, term deposits and guaranteed investment certificates that are readily convertible to known amounts of cash with original maturities of 12 months or less.

[f] Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Initial acquisition cost is based on the fair value of the consideration paid or payable and includes expenditures that are directly attributable to the acquisition of the asset. Where an item of property and equipment is comprised of major components with different useful lives, each component is accounted and depreciated for as a separate item.

Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment. One-half of the depreciation is recognized in the year of acquisition. Office furniture and equipment is depreciated over 5 years. Leasehold improvement is depreciated over the expected term of the lease. Website cost is depreciated over 3 years. Computer equipment is depreciated over 3 years.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[g] Intangible assets

Intangible assets consist of contractual rights to commercialize, market and promote certain pharmaceutical products. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following its initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets are amortized on a straight-line basis over the useful economic life of five years and assessed for indicators of impairment at the end of each reporting period. The amortization period is reviewed at least annually.

[h] Impairment of assets

Financial assets and non-financial assets of the Company are reviewed at the end of each reporting period or when facts and circumstances suggest their carrying values have been impaired. The Company considers assets to be impaired if the carrying values exceed the recoverable amount, being the higher of the value in use and the fair value less costs to sell.

Financial assets include cash and cash equivalents carried at fair value and amounts receivable measured at amortized cost. Amounts receivable consist of primarily of goods and services taxes due from the Government of Canada and revenue from customers for promotional marketing services performed. The Company considers the recoverable amounts of its financial assets to approximate their carrying values.

Non-financial assets consist of property and equipment, ROU assets, and intangible assets. In assessing value in use for a non-financial asset, the estimated future cash flows associated with the non-financial asset are discounted to their present value using a risk adjusted pre-tax discount rate. If the recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment immediately recognized in net income or loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate, subject to the amount not exceeding the carrying amount that would have been determined had impairment loss not been recognized for the asset in prior periods. Any reversal of impairment is recognized immediately in net income or loss.

[i] Research and development costs

Research costs, including costs for new patents and patent applications, are expensed in the period in which they are incurred. Development costs are expensed in the period in which they are incurred unless certain criteria, including technical feasibility, commercial feasibility, intent and ability to develop and use the technology, are met for deferral and amortization. No development cost has been deferred to date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[j] Share-based payments

The Company grants stock options to directors, officers and consultants pursuant to a stock option plan described in *note 12[e].* The Company uses the fair value method to account for all share-based awards granted, modified or settled, and the Black-Scholes Option Pricing Model to determine the fair value of stock options granted. As such, a share-based payment is recorded based on the estimated fair value of options with a corresponding credit to contributed surplus. Any consideration received plus the amounts recognized in contributed surplus will be transferred to share capital on the exercise of stock options. The amounts remain in contributed surplus for stock options which expire unexercised. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of share options that will eventually vest are accounted for prospectively. Options issued to non-employees are valued based on the fair value of the options issued as the fair value of the services provided cannot be measured reliably.

[k] Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the future income tax consequences attributable to differences between carrying values of assets and liabilities and their respective income tax bases, unused tax losses and other income tax deductions.

Deferred income tax assets are recognized for deductible temporary differences, unused tax losses and other income tax deductions to the extent that it is probable the Company will have taxable income against which those deductible temporary differences, unused tax losses and other income tax deductions can be utilized. The Company reassesses the extent to which tax benefits may be realized at the end of each reporting period.

Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the related tax assets are realized or the liabilities are settled. The measurement of deferred income tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover and settle the carrying amounts of its assets and liabilities, respectively. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period in which the change is substantively enacted.

Current and deferred income tax expense or recovery are recognized in net income or loss except when they arise as a result of items recognized in other comprehensive income or loss, or directly in equity in the current or prior periods, in which case the related current and deferred income taxes are also recognized in other comprehensive income or loss, or in equity, respectively.

[l] Investment tax credit

Investment tax credits are recorded as either a reduction of the cost of applicable assets or credited in net income or loss depending on the nature of the expenditures which gave rise to the credits. Claims for tax credits are recorded upon the Company receiving cash from the Canada Revenue Agency.

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[m] Loss per common share

Basic loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per common share is equivalent to the basic loss per common share as the effects of outstanding warrants and options disclosed in Note 12 are anti-dilutive for all periods presented.

[n] Equity and share capital

Share capital represents the value of shares that have been issued. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects. The Company may issue units consisting of common shares and common share purchase warrants. The Company estimates the fair value of the common shares based on their market price on the announcement date. The residual difference, if any, between the unit price and the fair value of each common share represents the fair value attributable to each warrant.

[o] Accounting standards issued but not yet applied

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee that are mandatory for fiscal periods beginning on or after January 1, 2020.

Amendments to IAS 1 and IAS 8: Definition of Material: In October 2018, the IASB issued amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments to the definition of material is not expected to have a significant impact on the Company's Consolidated Financial Statements.

4. CASH AND CASH EQUIVALENTS //

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Cash	182,779	169,243
Short-term investment	301,727	200,649
	484,506	369,892

At December 31, 2019, the Company has a variable rate investment of $300,000 (2018 - $200,000), the instrument is redeemable for cash at any time yields an interest rate of 2.00%, with a maturity date of May 5, 2020. During the year ended December 31, 2019, the Company recognized interest income of $9,481 (2018 - $5,312). Subsequent to December 31, 2019, the Company redeemed the investment in full.

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

5. PREPAID EXPENSES AND DEPOSIT //

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Prepaid rent on leased premises	-	42,877
Prepaid expenses	61,503	78,459
	61,503	121,336

6. PROPERTY AND EQUIPMENT //

	Office Furniture and Equipment $	Computer Equipment $	Website Costs $	Leasehold Improvement $	Total $
Cost:					
Balance, December 31, 2017	10,553	1,609	42,235	4,211	58,608
Addition	-	11,364	-	-	11,364
Balance, December 31, 2018	10,553	12,973	42,235	4,211	69,972
Addition	-	2,679	-	-	2,679
Balance, December 31, 2019	10,553	15,652	42,235	4,211	72,651
Accumulated depreciation:					
Balance, December 31, 2017	5,076	268	14,078	4,211	23,633
Depreciation	1,876	2,250	14,078	-	18,204
Balance, December 31, 2018	6,952	2,518	28,156	4,211	41,837
Depreciation	1,585	4,057	14,079	-	19,721
Balance, December 31, 2019	8,537	6,575	42,235	4,211	61,558
Net book value:					
As of December 31, 2018	3,601	10,455	14,079	-	28,135
As of December 31, 2019	2,016	9,077	-	-	11,093

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

7. INTANGIBLE ASSETS //

[a] On July 28, 2015, the Company acquired all issued and outstanding shares of TeOra for its sales and marketing capabilities, and a right to promote and market PR Vistitan™, an ophthalmology product, within Canada. In exchange for these assets and continuing services of TeOra's management, the Company issued 3,360,000 common shares of the Company with a fair value of $1,002,120, repaid TeOra's liabilities of $154,817 in cash and incurred transaction costs of $82,448 for a total acquisition cost of $1,239,385. 2,940,000 common shares were held in escrow for release over time for services performed and upon achievement of certain milestones.

During the year ended December 31, 2018, the Company extended the term for its promotional service agreement related to Vistitan to June 2021, with an option for renewal upon mutual agreement.

[b] On February 12, 2016, the Company entered into a licensing agreement with Supernus Pharmaceuticals, Inc. for Canadian commercial rights to Topiramate XR and Oxcarbazepine XR, two branded products for the treatment of epilepsy (the "Supernus Agreement"). Pursuant to the terms of the Supernus Agreement, and in addition to the upfront payment of $478,940 (US$350,000), the Company is further obligated to pay an aggregate of US$3.6 million in milestone payments upon the achievement of specified regulatory milestones, mid-teen royalty on net sales of Topiramate XR, US$1.5 million on net sales of Oxcarbazepine XR, as well as a milestone payment of US$1.5 million linked to achievement of specified cumulative net sales from both Topiramate XR and Oxcarbazepine XR. The Company is responsible for the regulatory submission and commercial activities for both products in Canada. The term of the Supernus Agreement will continue as long as the Topiramate XR and Oxcarbazepine XR products are sold in Canada. During the year ended December 31, 2019, the Company recognized an impairment of $478,940 due to the Company's limited ability to pay the future milestone payments in the next year.

	TeOra Assets $	Supernus Licensing Fee $	Total $
Cost:			
Balance, December 31, 2017 & 2018	847,945	478,940	1,326,885
Impairment	-	(478,940)	(478,940)
Balance, December 31, 2019	847,945	-	847,945
Accumulated amortization:			
Balance, December 31, 2017	423,972	-	423,972
Amortization of intangible assets	169,589	-	169,589
Balance, December 31, 2018	593,561	-	593,561
Amortization of intangible assets	169,589	-	169,589
Balance, December 31, 2019	763,150	-	763,150
Net book value:			
As of December 31, 2018	254,384	478,940	733,324
As of December 31, 2019	84,795	-	84,795

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

8. RIGHT OF USE LEASE ASSET //

The Company's right-of-use asset relates to the lease of office space.

On adoption of IFRS 16, the group recognized lease liabilities which had previously been classified as 'operating leases' under IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments and discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 9.5%.

Cost:	$
Balance at January 1, 2019, on adoption of IFRS 16	588,806
Accumulated amortization:	
Balance at January 1, 2019, on adoption of IFRS 16	-
Depreciation for the year	119,757
Balance, December 31, 2019	119,757
Net book value:	
As of January 1, 2019, on adoption of IFRS 16	588,806
As of December 31, 2019	469,049

9. LEASE LIABILITY //

	$
Balance at January 1, 2019, on adoption of IFRS 16	544,256
Interest expense	47,763
Lease payments	(140,146)
Balance, December 31, 2019	451,873
Which consist of:	
Current lease liability	143,520
Non-current lease liability	308,353
Balance, December 31, 2019	451,873

On December 1, 2018, the Company renewed the lease agreement for its Vancouver head office premise for five years expiring November 30, 2023. Pursuant to this renewal, the Company is obligated to pay basic rent of $11,653 and operating costs including electricity and related taxes at approximately $7,457, on a monthly basis. The base annual rent will increase to $139,840 for the year ended December 31, 2019, $143,520 for the year ended December 31, 2020 and $147,200, $150,880, and $154,560 in each of the following years.

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

10. CONVERTIBLE DEBT //

On May 2, 2019, the Company issued convertible debenture units ("Convertible Debenture Unit") of the Company at a price of $1,000 per Convertible Debenture Unit for proceeds of $2,348,000. Each Convertible Debenture Unit consisted of one 9.5% unsecured convertible debenture in the amount of $1,000 and 2,380 warrants. Each Convertible Debenture Unit is convertible at the option of the holder into common shares (each, a "Debenture Share") at $0.21, with interest payable semi-annually in arrears on June 30 and December 31 of each year and maturing May 2, 2022. The Company issued 5,588,240 warrants pursuant to the debenture financing. Each warrant entitles the holder to purchase one common share at $0.22 any time up to May 2, 2022.

The fair value of the liability component of the convertible debt using an imputed interest rate of 15%. The fair value of the liability component was determined to be $2,120,497, with the residual amount of $227,503 being allocated to equity. The Company allocated $79,626 of the equity portion to contributed surplus related to the detachable warrants. The detachable warrants were valued using the Black-Scholes Option Pricing Model under the following assumptions: a risk-free interest rate of 1.61%, estimated annualized volatility of 90.35%, an expected life of 3 years, nil dividend yield, $0.22 exercise price and a $0.185 share price.

In relation to the financing, the Company paid $177,646 in cash commission, $283,942 in other financing fees and issued 1,173,842 broker warrants. Each broker warrant is exercisable into one common share at $0.22 until May 2, 2022. The Company recognized $116,973 as share issue cost related to the broker warrants which were valued using the Black-Scholes Option Pricing Model under the following assumptions: a risk-free interest rate of 1.6%, annualized volatility of 90%, an expected life of 3 years, nil dividend yield, $0.22 exercise price and a $0.185 share price. The total costs associated with issuing the convertible debt totaled $578,561 and was allocated to the liability and equity component on a prorata basis of the convertible debt.

For the year ended December 31, 2019, the Company recorded $147,478 of interest expense incurred and $133,571 in accretion expense related to the convertible debt.

A continuity schedule of the convertible notes is as follows:

	$
Balance, January 1, 2019	-
Proceeds on issuance of convertible notes	2,348,000
Amount allocated to equity on issuance	(227,503)
Commission expense	(461,588)
Amount allocated to broker warrants	(116,973)
Accretion expense	223,428
Balance, December 31, 2019	1,765,364

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

11. RELATED PARTY DISCLOSURE //

[a] Transactions with related parties

Related parties include members of the Board of Directors and officers of the Company, and enterprises controlled by these individuals. The following fees and expenses were incurred:

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Management [i] [ii] [iii] [v]	611,174	562,356
Consulting [iv]	7,321	55,413
	618,495	617,769

[i] Effective December 1, 2016, the Company entered into a consulting agreement with Northview Ventures Inc. ("NVI") and Doug Janzen, the Chief Executive Officer of the Company. Northview Ventures Inc. was compensated at a monthly rate of $25,000 from December 1, 2016 to March 31, 2017, $15,000 to September 30, 2020, and $18,750 thereafter. During the year ended December 31, 2019, NVI received $191,250 (2018 - $180,000) in compensation.

[ii] Ms. Stevens was compensated at a monthly rate of $12,500 from October 1, 2017 to August 31, 2018, $10,449 to September 30, 2020, and $15,625 thereafter. During the year ended December 31, 2019, Ms. Stevens received $142,970 (2018 - $141,798) in salaries.

[iii] The Company entered into a consulting service agreement with Mr. Ian Ball who served as the Chief Commercial Officer of the Company. Pursuant to this consulting agreement with a term to January 31, 2020, Mr. Ball is compensated at a monthly rate of $12,000 to September 30, 2020 and $15,000 thereafter. During the year ended December 31, 2019, Mr. Ball charged total consulting fees of $153,000 (2018 - $144,000).

As of December 31, 2018, the Company has included in its accounts payable and accrued liabilities $nil (2018 - $12,459) due to Mr. Ball.

[iv] The Company entered into a consulting service agreement with Dr. Donald McAfee, the Acting Chief Scientific Officer of the Company. Pursuant to the Consulting Agreement, Dr. McAfee was compensated at a daily rate of US$1,000. During the year ended December 31, 2019, Dr. McAfee charged total consulting fees of $7,321 (2018 - $55,413).

As of December 31, 2019, the Company has included in its accounts payable and accrued liabilities $nil (2018 - $3,922) due to Dr. McAfee.

[v] The Company entered into a consulting service agreement with Fehr & Associates and Ann Fehr, the Chief Financial Officer of the Company. Pursuant to this consulting agreement, Mrs. Fehr is compensated at a rate of $1,000 per month plus $120 per hour. During the year ended December 31, 2019, Fehr & Associates charged total consulting fees of $123,954 (2017 - $96,558) for CFO and outsourced accounting services.

As of December 31, 2019, the Company has included in its accounts payable and accrued liabilities $5,299 (2018 - $26,124) due to Fehr & Associates.

The amounts owing to the related parties as described above are non-secured, non-interest bearing, with no specific terms of repayment.

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

11. RELATED PARTY DISCLOSURE (CONTINUED)

[b] Key management compensation

Key management includes members of the Board of Directors and executive officers of the Company. Compensation awarded to key management is listed below:

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Management, wages and related, General administration	428,169	388,306
Management, wages and related, Research and development	83,555	80,449
Management, wages and related, Sales and marketing	99,450	93,600
Consulting, Research and development	7,321	55,413
Share-based payments, General administration	49,446	114,456
Share-based payments, Research and development	20,014	51,322
Share-based payments, Sales and marketing	7,098	17,874
	695,053	801,422

[c] Other

During the year ended December 31, 2017, the Company entered into two separate sublease agreements with Northview Lifesciences and Fehr & Associates for recovery of rent expense. During the year ended December 31, 2019, the Company received $5,136 and $52,256 (2018 - $6,115 and $39,025), respectively.

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

12. SHARE CAPITAL //

[a] Preferred shares

The authorized share capital of the Company consists of an unlimited number of Class A preferred shares without par value. As of December 31, 2019, and 2018, there were no preferred shares issued and outstanding.

[b] Common shares

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

Held in Escrow Accounts	Number of Shares
(i) Pursuant to listing requirements of the TSX Venture Exchange	
Balance, December 31, 2017	3,058,068
Release on March 17, 2018	(3,058,069)
Balance, December 31, 2018 & 2019	-
(ii) Pursuant to the terms of the TeOra Acquisition	
Balance, December 31, 2017	420,000
Release on closing date anniversary of the TeOra acquisition	(420,000)
Balance, December 31, 2018 & 2019	-

During the year ended December 31, 2019:

[i] During the year ended December 31, 2019, 1,000 share purchase warrants were exercised at $0.22 and the Company issued 1,000 common shares for proceeds of $220.

During the year ended December 31, 2018:

[ii] On January 31, 2018, the Company issued 1,000,000 units for proceeds of $300,000. Each unit comprises of one common share and one warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.50 for a period of 24 months. The warrants include an acceleration provision, exercisable at the Company's option, if the Company's daily volume weighted average share price is greater than $0.85 for 10 consecutive trading days. Of the proceeds raised, $300,000 was paid to the shareholder and included in consulting fees expense.

[iii] On July 30, 2018, the Company issued 4,000,000 units at a price of $0.20 per unit for total proceeds of $800,000. Each unit consists of one common share and one-half warrant, where one warrant is exercisable at a price of $0.30 for a period of 48 months under the prospectus supplement to the Company's base shelf prospectus.

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

[vi] On August 10, 2018, the Company issued 3,875,000 units at a price of $0.20 per unit for proceeds of $775,000. Each unit consists of one common share and one-half warrant, where one warrant is exercisable at a price of $0.30 for a period of 4 years. The Company paid a fee in connection with the units consisting of a 7% cash payment on certain subscriptions in the aggregate amount of $33,250 and 166,250 warrants.

The Company recognized $13,799 as share issue cost related to the 166,250 finders warrants which were valued using the Black-Scholes Option Pricing Model under the following assumptions: a risk-free interest rate of 2.2%, estimated annualized volatility of 103%, an expected life of 2 years, nil dividend yield, $0.30 exercise price and a $0.19 share price.

[v] During the year ended December 31, 2018, the Company issued 210,832 common shares with a fair value of $62,861, as part of a service agreement entered into with Camargo Pharmaceutical Services, LLC for regulatory consulting services. Under the terms of the agreement, Camargo will be compensated with a split of cash and common shares of the Company for the services provided.

[c] Common share purchase warrants

Common share purchase warrant transactions and the number of common share purchase warrants outstanding are summarized below:

	Number	Weighted Average Exercise Price $
Balance, December 31, 2017	8,625,000	0.45
Issued	4,937,500	0.34
Balance, December 31, 2018	13,562,500	0.41
Issued	5,588,240	0.22
Expired	(8,625,000)	(0.45)
Exercised	(1,000)	(0.22)
Balance, December 31, 2019	10,524,740	0.28

Date of Expiry	Exercise Price $	Number of Warrants Outstanding
January 31, 2020 (1)	0.50	1,000,000
August 9, 2020	0.30	3,937,500
May 2, 2022	0.22	5,587,240
Balance, December 31, 2019		10,524,740

(1) Subsequent to December 31, 2019, these 1,000,000 common share purchase warrants expired unexercised.

The remaining life of the common share purchase warrants as of December 31, 2019 is 1.48 years (2018 - 0.44 years).

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[d] Agents' warrants and broker's warrants

	Number	Weighted Average Exercise Price $
Balance, December 31, 2017	862,500	0.30
Issued	166,250	0.30
Balance, December 31, 2018	1,028,750	0.30
Issued	1,173,842	0.22
Expired	(862,500)	(0.30)
Balance, December 31, 2019	1,340,092	0.23

Date of Expiry	Exercise Price $	Number of Warrants Outstanding
August 9, 2020	0.30	166,250
May 2, 2022	0.22	1,173,842
Balance, December 31, 2019		1,340,092

The remaining life of the agents' warrants at December 31, 2019 is 2.12 years (2018 - 0.44 years).

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[e] Stock options

On December 10, 2014, the Company adopted a stock option plan (the "Stock Option Plan") providing the granting of options to employees, officers, directors, consultants and scientific advisory board members. The Stock Option Plan was subsequently amended on February 4, 2015 to meet the listing requirements of the Exchange. On June 15, 2015, August 19, 2016, June 12, 2017, and June 26, 2019. the Company further amended its Stock Option Plan (the "Amended and Restated Stock Option Plan").

The maximum number of common shares issuable under the Amended and Restated Stock Option Plan is fixed at 16,000,000 common shares. Under the Amended and Restated Stock Option Plan, the maximum number of common shares that may be optioned in favor of any single individual will not exceed 5% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be optioned in favor of directors and senior officers under the Stock Option Plan is 10% of the issued and outstanding common shares at the date of grant. The options can be granted for a maximum term of 10 years.

During the year ended December 31, 2019, the Company recorded share-based payments of $201,004 (2018 - $327,052) related to stock options which vested in the period. The fair values of the stock options granted during the year ended December 31, 2019 and 2018 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2019	2018
Risk-free interest rate	1.91%	2.20%
Estimated annualized volatility	91.24%	95.57%
Expected life	8 years	8 years
Expected dividend yield	0%	0%
Exercise price	$0.18	$0.21
Fair value per option	$0.14	$0.09

Stock option transactions and the number of stock options outstanding are summarized below:

	Number	Weighted Average Exercise Price $
Balance, December 31, 2017	8,078,278	0.32
Forfeited	(360,000)	(0.55)
Expired	(900,000)	(0.29)
Granted	1,180,000	0.19
Balance, December 31, 2018	7,998,278	0.30
Expired	(600,000)	(0.16)
Granted	700,000	0.18
Balance, December 31, 2019	8,098,278	0.30

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[e] Stock options (continued)

Date of Expiry	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
May 31, 2020	$0.25	1,124,337	1,124,337
December 12, 2021	$0.35	565,000	565,000
December 18, 2022	$0.55	350,000	350,000
March 6, 2023	$0.55	350,000	350,000
July 9, 2023	$0.57	300,000	300,000
September 30, 2023	$0.55	186,000	186,000
April 21, 2024	$0.47	900,000	900,000
July 22, 2024	$0.35	150,000	150,000
December 6, 2025	$0.20	2,292,941	1,729,706
April 16, 2026	$0.25	30,000	15,000
July 23, 2026	$0.20	350,000	262,500
November 6, 2026	$0.18	800,000	600,000
February 1, 2027	$0.18	700,000	175,000
	$0.30	8,098,278	6,707,543

As of December 31, 2019, the weighted average remaining life for outstanding options was 4.52 years (2018 – 4.25 years).

13. COMMITMENTS AND CONTINGENCIES //

[a] Licensing agreement

Pursuant to the terms of the Supernus Agreement *[Note 7[b]]*, and in addition to the upfront payment of $478,940 (US$350,000), the Company is further obligated to pay an aggregate of US$5.15 million in milestone payments upon the achievement of specified regulatory milestones, mid-teen royalty on net sales of Topiramate XR and Oxcarbazepine XR, as well as a milestone payment of US$1.5 million linked to achievement of specified cumulative net sales from both Topiramate XR and Oxcarbazepine XR. The Company is responsible for the regulatory submission and commercial activities for both products in Canada. The term of the Supernus Agreement will continue as long as the Topiramate XR and Oxcarbazepine XR products are sold in Canada.

[b] Contingencies

The Company has entered into agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third-party claims or damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is unlimited. These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay.

As of December 31, 2019, and 2018, the Company had not made any indemnification payments under such agreements and no amount had been accrued in the consolidated financial statements with respect to these indemnification obligations.

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

14. OPERATING EXPENSES //

[a] Research and development expenses

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Consulting *[note 11]*	27,080	243,628
Patent and intellectual property protection	37,454	89,728
Management, wages, and related *[note 11]*	92,322	96,784
Share-based payments *[notes 11 & 12]*	51,523	73,672
Subcontract research costs and development costs *[note 11]*	-	8,297
Travel and accommodation	2,448	14,826
	210,827	526,935

[b] Sales and marketing expenses

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Advertising and promotion	146,045	117,672
Consulting	-	23,600
Depreciation and amortization *[notes 6 and 7]*	189,309	187,793
Printing and other expenses	26,555	16,524
Management, wages, and related *[note 11]*	99,450	93,600
Salesforce	1,008,700	840,507
Share-based payments *[notes 11 & 12]*	82,241	108,046
Travel and accommodation	305,178	258,334
	1,857,478	1,646,076

[c] General administration expenses

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Consulting	355,601	614,475
Legal and professional fees	192,582	168,122
Other general administration expenses	349,790	349,705
Interest expense	195,241	-
Accretion expense *[note 9]*	223,428	-
Regulatory and transfer agent fees	55,282	56,945
Management, wages, and related *[note 11]*	612,212	478,569
Share-based payments *[notes 11 & 12]*	67,240	164,313
Travel and accommodation	149,403	213,129
	2,200,779	2,045,258

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT //

Fair value

The Company's financial instruments at December 31, 2019 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and convertible debentures. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

IFRS 13 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3 - inputs for the asset or liability that are not based upon observable market data.

The fair value of cash and cash equivalents is based on Level 1 inputs and the fair value of the liability component of convertible debt is based on Level 2 inputs. The fair value of the convertible debentures at issuance using Level 2 inputs is $1,566,139.

[a] Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises for the Company from its cash and cash equivalents and amounts receivable. The Company has adopted practices to mitigate against the deterioration of principal, to enhance the Company's ability to meet its liquidity needs, and to optimize yields within those parameters. These investment practices limit the investing of excess funds to liquid term deposits or cashable guaranteed investments ("GIC") with banks, and government guaranteed securities with maturities of one year or less. The Company has a cashable GIC at December 31, 2019 of $300,000 (2018 - $200,000). Amounts receivable consists of service fees owed from a collaborative partner.

[b] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. As of December 31, 2019, the Company had working capital of $631,686 (2018 - $920,175).

[c] Market risk

[i] Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company is not exposed to significant cash flows fluctuations due to interest rate changes on its convertible notes as these bear interest at a fixed 9.5% rate. As such, fluctuations in the market interest rates during the years ended December 31, 2019 and 2018 had no significant impact on its interest income.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[c] Market risk (continued)

[ii] Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company has a portion of its operating expenses in U.S. dollars. The Company has not entered into foreign exchange derivative contracts. A significant change in the currency exchange rate between the Canadian dollars relative to the U.S. dollars could have an effect on the Company's results of operations, financial position or cash flows.

As at December 31, 2019 and 2018, the Company had the following assets and liabilities denominated in U.S. dollars:

	December 31, 2019 US$	December 31, 2018 US$
Cash and cash equivalents	1,491	20
Accounts payable and accrued liabilities	-	(17,537)
Total	1,491	(17,517)

Based on the above net exposure as at December 31, 2019, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of $75 USD (2018 - $876 USD) in the Company's net loss. Furthermore, the company incurred $98,131 USD expenditures during the year ended December 31, 2019 (2018 - $244,682 USD). A 5% appreciation or deterioration of the Canadian dollar against the U.S dollar would result in a change of $4,907 USD.

[d] Capital disclosure

The Company's objectives when managing capital are to ensure its ability to continue as a going concern in order to pursue the development of its product candidates for ultimate sale or out-licensing. The Company attempts to maximize return to shareholders by minimizing shareholder dilution and, when possible, utilizing non-dilutive funding arrangements, such as collaborative partnership arrangements.

The Company defines its capital as share capital and contributed surplus and convertible debentures of $1,765,364 (December 31, 2018 - $nil). The Company has financed its capital requirements primarily through share and warrant issuances since inception and during the year ended December 31, 2019 issued convertible debenture units.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements. Other than the issuance of convertible debentures, there were no changes to the Company's approach to capital management during the year ended December 31, 2019.

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

16. INCOME TAXES //

At December 31, 2019, the Company has non-capital loss carryforwards available to offset future taxable income in Canada, which expires as follows:

Expiry Date	Non-Capital Losses $
December 31, 2032	615,012
December 31, 2033	1,853,110
December 31, 2034	613,893
December 31, 2035	2,705,562
December 31, 2036	3,962,806
December 31, 2037	3,348,023
December 31, 2038	2,188,996
December 31, 2039	2,811,089
	18,098,491

The Company recognizes tax benefits on losses or other deductible amounts where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31, 2019 $	December 31, 2018 $
Deferred income tax assets (liabilities):		
Share issuance costs	182,429	182,429
Scientific research and experimental development expenditures	855,235	855,235
Non-capital loss carryforwards	4,606,010	3,856,381
Total deferred income tax assets	5,643,674	4,894,045
Deferred income tax not recognized	(5,643,674)	(4,894,045)
Net deferred tax asset	-	-

The Company also has non-refundable tax credits of approximately $133,000 related to scientific research and experimental development expenditures in Canada available to carry forward indefinitely to offset taxes payable of future years.

The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expenses using a 27% statutory tax rate is:

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Expected income tax recovery at statutory rates	(838,648)	(757,010)
Items not deductible for tax purposes	120,715	139,217
Under/(over) provided in prior year	(31,696)	10,838
Benefits not recognized	749,629	606,955
Income tax expense	-	-

For the years ended December 31, 2019 and 2018 (Expressed in Canadian dollars)

17. SEGMENTED DISCLOSURE

The Company reports segments based on the financial information it uses in managing its business. The Company operates in two business segments with operations and long-term assets in Canada. The Company's reportable segments are comprised of the development pipeline and the commercial platform. Segmented information is as follows:

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Net revenues:		
Commercial platform	1,632,524	1,410,240
Development pipeline	-	-
Expenses:		
Development pipeline	210,827	526,935
Commercial platform	1,857,478	1,646,077
General corporate expenses	2,200,779	2,045,257
	4,269,084	4,218,269
Loss before other income (loss)	(2,636,560)	(2,808,029)
Other income (loss)	(469,544)	4,289
Net loss and comprehensive loss	(3,106,104)	(2,803,740)

There are no liabilities specifically associates with either of the two operating segments. The Company operates in one geographical segment being the Canadian Market.

The Company received revenues by providing promotional services to sell third party owned products, Tacrolimus IR and [PR]Vistitan. 100% of its generated revenues are from one arm's-length customer.

18. SUBSEQUENT EVENTS

(a) The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.

(b) On February 14, 2020, the Company granted 350,000 stock options to a director and 100,000 stock options to an employee. The options have an exercise price of $0.13, a term of eight years, and vest in tranches during the next three years.