



AEQUUS PHARMACEUTICALS INC.

// CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019

(Expressed in Canadian dollars)

AEQUUS PHARMACEUTICALS INC.

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian dollars

	Note	March 31, 2020 \$	December 31, 2019 \$
ASSETS			
Current			
Cash and cash equivalents	4	328,524	484,506
Inventory		-	5,429
Amounts receivable		598,149	556,296
Prepaid expenses		60,075	61,503
		986,748	1,107,734
Property and equipment	5	9,604	11,093
Intangible assets, net	6	42,398	84,795
Right of use lease asset, net	7	439,110	469,049
Total assets		1,477,860	1,672,671
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
LIABILITIES			
Current			
Accounts payable	10	335,274	249,528
Accrued liabilities		96,247	83,000
Lease liability – current	8	144,440	143,520
		575,961	476,048
Lease liability	8	282,085	308,353
Convertible debt, net	9	1,859,015	1,765,364
Total liabilities		2,717,061	2,549,765
SHAREHOLDERS' DEFICIT			
Share capital	11	19,082,670	19,082,670
Contributed surplus		3,738,474	3,694,766
Deficit		(24,060,345)	(23,654,530)
Total shareholders' deficit		(1,239,201)	(877,094)
Total liabilities and shareholders' equity (deficit)		1,477,860	1,672,671
Nature of operations and going concern (Note 1)			
Subsequent events (Note 16)			

These condensed consolidated interim financial statements were approved for issue by the Audit Committee on May 31, 2020 and signed on its behalf by:

“Christopher Clark”
Director

“Jason Flowerday”
Director

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

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND
COMPREHENSIVE LOSS

Expressed in Canadian dollars

	Note	Three months Ended March 31, 2020 \$	Three Months Ended March 31, 2019 \$
Revenue		579,450	328,996
Expenses			
Research and development	13	14,317	69,078
Sales and marketing	13	451,146	509,096
General administration	13	522,693	482,531
		988,156	1,060,705
Loss before other income (loss)		(408,706)	(731,709)
Other income (loss)			
Interest income	4	3,013	749
Foreign exchange loss		(122)	745
		(2,891)	1,494
Net loss and comprehensive loss		(405,815)	(730,215)
Basic and diluted loss per common share		(0.01)	(0.01)
Weighted average number of common shares outstanding – basic and diluted		80,436,970	80,436,970

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

AEQUUS PHARMACEUTICALS INC.
// CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
Expressed in Canadian dollars

	Common Shares		Contributed	Deficit	Total
	Number	\$	Surplus	\$	\$
Balance, December 31, 2018	80,436,970	18,934,573	3,297,163	(20,550,102)	1,681,634
Share based payments	-	-	70,832	-	70,832
Adjustment on adoption of IFRS 16 (Note 3)	-	-	-	1,676	1,676
Net loss for the period	-	-	-	(730,215)	(730,215)
Balance, March 31, 2019	80,436,970	18,934,573	3,367,995	(21,278,641)	1,023,927
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	-	-	130,172	-	130,172
Net loss for the period	-	-	-	(2,375,889)	(2,375,889)
Balance, December 31, 2019	80,437,970	19,082,670	3,694,766	(23,654,530)	(877,094)
Share based payments	-	-	43,708	-	43,708
Net loss for the period	-	-	-	(405,815)	(405,815)
Balance, March 31, 2020	80,437,970	19,082,670	3,738,474	(24,060,345)	(1,239,201)

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

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

	Three Months Ended March 31, 2020 \$	Three Months Ended March 31, 2019 \$
OPERATING ACTIVITIES		
Net loss	(405,815)	(730,215)
Add items not affecting cash:		
Convertible debt accretion expense	93,651	-
Depreciation of property and equipment	1,489	5,003
Depreciation of intangible assets	42,397	42,397
Depreciation of right of use asset	29,939	29,939
Interest expense	10,532	12,751
Share-based payments	43,708	70,832
	(184,099)	(569,293)
Changes in non-cash working capital items relating to operations:		
Amounts receivable	(41,853)	526,758
Inventory	5,429	3,452
Prepaid expenses	1,428	11,088
Accounts payable and accrued liabilities	98,993	98,405
Cash used in operating activities	(120,102)	70,410
FINANCING ACTIVITY		
Payments of lease obligation	(35,880)	(34,960)
Cash used in financing activities	(35,880)	(34,960)
Increase (decrease) in cash and cash equivalents	(155,982)	35,450
Cash and cash equivalents, beginning	484,506	369,892
Cash and cash equivalents, ending	328,524	405,342

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

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

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 condensed consolidated interim 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 condensed consolidated interim 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 recent outbreak of the coronavirus, also known as "COVID-19", continues to impact worldwide economic activity. 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.

The Company has incurred losses and negative operating cash flows since its inception. As of March 31, 2020, the Company has accumulated a deficit of \$24,060,345 (December 31, 2019 - \$23,654,530). 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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting." They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited financial statements for the fiscal year ended December 31, 2019, which have been prepared with International Financial Reporting Standards ("IFRS"). These condensed consolidated interim financial statements were approved by the Company's Audit Committee on behalf of its Board of Directors on May 31, 2020.

[b] Basis of measurement

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

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (CONTINUED)

[c] Functional and foreign currency

These condensed consolidated interim 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.

[d] Significant accounting estimates and judgments

The preparation of these condensed consolidated interim 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 condensed consolidated interim financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim 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 condensed consolidated interim 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.

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// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

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.
- 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 condensed consolidated interim financial statements are set out below which have been applied to all the years presented, unless otherwise stated. Please refer to the audited financial statements for the year ended December 31, 2019 for a full list of policies.

Amendments to IAS 1 and IAS 8

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.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments to IAS 1 and IAS 8 (continued)

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 did not have a significant impact on the Company's condensed consolidated interim financial statements.

4. CASH AND CASH EQUIVALENTS //

	March 31, 2020	December 31, 2019
	\$	\$
Cash	178,210	182,779
Short-term investment	150,314	301,727
Total Cash and Cash Equivalents	328,524	484,506

At March 31, 2020, the Company has a variable rate investment of \$150,000 (December 31, 2019 - \$300,000), 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 three months ended March 31, 2020, the Company recognized interest income of \$3,013 (March 31, 2019 - \$749). Subsequent to March 31, 2020, the Company redeemed the investment in full.

5. PROPERTY AND EQUIPMENT //

	Office Furniture and Equipment	Computer Equipment	Website Costs	Total
	\$	\$	\$	\$
Cost:				
Balance, December 31, 2018	10,553	12,973	42,235	69,972
Addition	-	2,679	-	2,679
Balance, December 31, 2019	10,553	15,652	42,235	72,651
Addition	-	-	-	-
Balance, March 31, 2020	10,553	15,652	42,235	72,651
Accumulated depreciation:				
Balance, December 31, 2018	6,952	2,518	28,156	41,837
Depreciation	1,585	4,057	14,079	19,721
Balance, December 31, 2019	8,537	6,575	42,235	61,558
Depreciation	252	1,237	-	1,489
Balance, March 31, 2020	8,789	7,812	42,235	63,047
Net book value:				
As of December 31, 2019	2,016	9,077	-	11,093
As of December 31, 2020	1,764	7,840	-	9,604

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

6. 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 and March 31, 2020	847,945	-	847,945
Accumulated amortization:			
Balance, December 31, 2018	593,561	-	593,561
Amortization of intangible assets	169,589	-	169,589
Balance, December 31, 2019	763,150	-	763,150
Amortization of intangible assets	42,397	-	42,397
Balance, March 31, 2020	805,547	-	805,547
Net book value:			
As of December 31, 2019	84,795	-	84,795
As of March 31, 2020	42,398	-	42,398

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

7. 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
Depreciation for the period	29,939
Balance, March 31, 2020	149,696
Net book value:	
As of January 1, 2019, on adoption of IFRS 16	588,806
As of December 31, 2019	469,049
As of March 31, 2020	439,110

8. 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
Interest expense	10,532
Lease payments	(35,880)
Balance, March 31, 2020	426,525
Which consist of:	
Current lease liability	144,440
Non-current lease liability	282,085
Balance, March 31, 2020	426,525

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.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

9. 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 prorated basis of the convertible debt.

For the three months ended March 31, 2020, the Company recorded \$59,203 of accrued interest expense and \$93,651 in accretion expense (March 31, 2019 – both nil) 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
Accretion expense	93,651
Balance, March 31, 2020	1,859,015

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

10. 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:

	Three Months Ended March 31, 2020 \$	Three Months Ended March 31, 2019 \$
Management ^[i] ^[ii] ^[iii] ^[v] ^[vi]	153,981	139,488
Consulting ^[iv]	-	6,173
Total	153,981	145,661

[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. During the three months ended March 31, 2020, NVI received \$56,250 (March 31, 2019 - \$45,000) in management fees.

[ii] Ms. Stevens was compensated at a monthly rate of \$10,449 from August 31, 2018 to September 30, 2019, and \$15,625 thereafter. During the three months ended March 31, 2020, Ms. Stevens received \$46,875 (March 31, 2019 - \$31,348) 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. During the three months ended March 31, 2020, the Company recognized management fee expense of \$15,000 (March 31, 2019 - \$36,000) related to Mr. Ball's services. As of March 31, 2020, the Company has included in its accounts payable and accrued liabilities \$2,249 (December 31, 2019 - \$nil) 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 three months ended March 31, 2020, Dr. McAfee charged total consulting fees of \$nil (March 31, 2019 - \$6,173).

[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 three months ended March 31, 2020, Fehr & Associates charged total consulting fees of \$20,856 (March 31, 2019 - \$27,140) for CFO and outsourced accounting services.

As of March 31, 2020, the Company has included in its accounts payable and accrued liabilities \$21,426 (December 31, 2019 - \$5,299) due to Fehr & Associates.

[vi] The Company entered into a consulting service agreement with Transcend Research and Consulting and Stuart Fowler, a director and strategic commercial advisor of the Company. During the three months ended March 31, 2020, the Company recognized consulting expense of \$15,000 (March 31, 2019 \$nil) related to Mr. Fowler's services.

As of March 31, 2020, the Company has included in its accounts payable \$5,650 (December 31, 2019 - \$nil) due to Transcend Research and Consulting.

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// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

10. RELATED PARTY DISCLOSURE //

[a] Transactions with related parties (continued)

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

[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:

	Three Months Ended March 31, 2020 \$	Three Months Ended March 31, 2019 \$
Management, wages and related, General administration	92,106	97,001
Management, wages and related, Research and development	8,438	19,087
Management, wages and related, Sales and marketing	53,438	23,400
Consulting, Research and development	-	6,173
Share-based payments, General administration	4,453	9,242
Share-based payments, Research and development	1,637	6,144
Share-based payments, Sales and marketing	21,466	2,294
Total	181,536	163,341

[c] Other

The Company entered into two separate sublease agreements with Northview Lifesciences and Fehr & Associates for recovery of rent expense. During the three months ended March 31, 2020, the Company received \$163 and \$10,836 (March 31, 2019 - \$1,845 and \$13,125), respectively.

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// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

11. 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 March 31, 2020, and December 31, 2019, 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.

During the period ended March 31, 2020:

[i] There were no share issuances.

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.

[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, 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
Expired	(1,000,000)	(0.50)
Balance, March 31, 2020	9,524,740	0.25

Date of Expiry	Exercise Price \$	Number of Warrants Outstanding
August 9, 2020	0.30	3,937,500
May 2, 2022	0.22	5,587,240
Balance, March 31, 2020		9,524,740

The remaining life of the common share purchase warrants as of March 31, 2020 is 1.37 years (December 31, 2019 – 1.48 years).

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// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

11. SHARE CAPITAL (CONTINUED)

[d] Agents' warrants and broker's warrants

	Number	Weighted Average Exercise Price \$
Balance, December 31, 2018	1,028,750	0.30
Issued	1,173,842	0.22
Expired	(862,500)	(0.30)
Balance, December 31, 2019 and March 31, 2020	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, March 31, 2020		1,340,092

The remaining life of the agents' warrants at March 31, 2020 is 1.87 years (December 31, 2019 – 2.12 years).

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11. 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 three months ended March 31, 2020, the Company recorded share-based payments of \$43,708 (March 31, 2019 - \$70,832) related to stock options which vested in the period. The fair values of 450,000 stock options granted during the three months ended March 31, 2020 (March 31, 2019 – 700,000) are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Risk-free interest rate	1.38%	1.91%
Estimated annualized volatility	88.95%	91.24%
Expected life	8 years	8 years
Expected dividend yield	0%	0%
Exercise price	\$0.13	\$0.18
Fair value per option	\$0.11	\$0.14

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

	Number	Weighted Average Exercise Price \$
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
Expired	-	-
Granted	450,000	0.13
Balance, March 31, 2020	8,548,278	0.29

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For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

11. 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	325,000
February 14, 2028	\$0.13	450,000	200,000
Total	\$0.29	8,548,278	7,057,543

As of March 31, 2020, the weighted average remaining life for outstanding options was 4.46 years (March 31, 2019 – 4.95 years).

12. 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. During the year ended December 31, 2019, the Company recognized an impairment loss of \$478,940 due to the Company's limited ability to pay the future milestone payments in the next year.

[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 March 31, 2020, and December 31, 2019 the Company had not made any indemnification payments under such agreements and no amount had been accrued in the condensed consolidated interim financial statements with respect to these indemnification obligations.

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// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

13. OPERATING EXPENSES //

[a] Research and development expenses

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	\$	\$
Consulting <i>[note 10]</i>	-	25,930
Patent and intellectual property protection	610	4,768
Management, wages, and related <i>[note 10]</i>	8,438	21,587
Share-based payments <i>[notes 10 & 11]</i>	5,186	15,876
Travel and accommodation	83	917
Total	14,317	69,078

[b] Sales and marketing expenses

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	\$	\$
Advertising and promotion	12,958	31,057
Depreciation and amortization <i>[notes 5 & 6]</i>	43,886	47,400
Printing and other expenses	1,765	1,987
Management, wages, and related <i>[note 10]</i>	30,000	23,400
Salesforce	274,950	282,160
Share-based payments <i>[notes 10 & 11]</i>	31,948	34,119
Travel and accommodation	55,639	88,973
Total	451,146	509,096

[c] General administration expenses

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	\$	\$
Consulting	31,813	99,954
Legal and professional fees	56,869	38,412
Other general administration expenses	90,994	100,357
Interest expense	69,735	-
Accretion expense <i>[note 9]</i>	93,651	-
Regulatory and transfer agent fees	23,300	23,344
Management, wages, and related <i>[note 10]</i>	115,985	147,420
Share-based payments <i>[notes 10 & 11]</i>	6,574	20,836
Travel and accommodation	33,772	52,208
Total	522,693	482,531

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For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT //

Fair value

The Company's financial instruments at March 31, 2020 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.

[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 March 31, 2020 of \$150,000 (December 31, 2019 - \$300,000). 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 March 31, 2020, the Company had working capital of \$410,787 (December 31, 2019 - \$631,686).

[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 three months ended March 31, 2020 and year ended December 31, 2019 had no significant impact on its interest income.

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// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months ended March 31, 2020 and 2019 (Expressed in Canadian dollars)

14. 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 March 31, 2020, and December 31, 2019, the Company had the following assets and liabilities denominated in U.S. dollars:

	March 31, 2020 USD \$	December 31, 2019 USD \$
Cash and cash equivalents	1,461	1,491
Accounts payable and accrued liabilities	437	-
Total	1,898	1,491

Based on the above net exposure as at March 31, 2020, 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 \$95 USD (December 31, 2019 - \$75 USD) in the Company's net loss. Furthermore, the company incurred \$16,732 USD expenditures during the three months ended March 31, 2020 (March 31, 2019 - \$25,914 USD). A 5% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of \$837 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 \$1,859,015. 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 three months ended March 31, 2020 and year ended December 31, 2019.

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15. 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 assets in Canada. The Company's reportable segments are comprised of the development pipeline and the commercial platform. The Company has not earned revenue from the development pipeline segments during the three months ended March 31, 2019 and 2020. The revenue related to the commercial platform during the three months ended March 31, 2020 was \$579,450 (March 31, 2019 - \$328,996). The Company received revenues by providing promotional services to sell third party owned products, Tacrolimus IR and ^{PR}Vistitan. The 100% of its generated revenues are from one arm's-length customer.

Expenses from the two operating segments are summarized as follows:

	Three months Ended March 31, 2020 \$	Three months Ended March 31, 2019 \$
Development pipeline ⁽¹⁾	14,317	69,078
Commercial platform ⁽¹⁾⁽²⁾	451,146	509,096
General corporate expenses	522,693	482,531
Total	988,156	1,060,705

⁽¹⁾ There are no liabilities specifically associates with either of the two operating segments.

⁽²⁾ The intangible asset at March 31, 2020 of \$42,398 (2019 - \$84,795) is associated with the Commercial platform (note 6(b))

The Company operates in one geographical segment being the Canadian Market.

16. SUBSEQUENT EVENT

The Company was approved for a \$40,000 COVID-19 Relief Line of Credit (via Canada Emergency Business Account Program). The loan is a 0% interest operating line of credit until December 31, 2020. On January 1, 2021, this line of credit will convert to a 2-year, 0% interest term loan to be repaid by December 31, 2022. Balance forgiveness of 25% applies if repaid in full by December 31, 2022. If, by December 31, 2022, the option for 3-year term extension is exercised, the remaining unpaid balance of the loan will incur 5% interest during the term extension period. The remaining balance must be paid in full by December 31, 2025.