AEQUUS PHARMACEUTICALS INC.

// CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

(Unaudited, Expressed in Canadian dollars)

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

	Note	March 31, 2021 $	December 31, 2020 $
ASSETS		(unaudited)	
Current			
Cash and cash equivalents	4	3,337,427	1,718,869
Inventory	5, 17	109,333	123,322
Amounts receivable		485,267	779,514
Prepaid expenses		179,875	146,691
		4,111,902	2,768,396
Property and equipment	6	14,772	16,996
Intangible assets, net	7	35,145	-
Right-of-use lease asset, net	8	319,353	349,292
Total assets		4,481,172	3,134,684
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable	12	235,157	160,868
Accrued liabilities	12	126,220	76,254
Lease liability	9	148,121	147,201
		509,498	384,323
CEBA Loan	11	23,480	22,684
Lease liability	9	169,559	199,276
Convertible debt	10	1,748,224	1,954,447
Total liabilities		2,450,761	2,560,730
SHAREHOLDERS' EQUITY			
Share capital	13	23,165,903	21,172,054
Reserves		4,186,056	4,101,790
Deficit		(25,321,548)	(24,699,890)
Total shareholders' equity		2,030,411	573,954
Total liabilities and shareholders' equity		4,481,172	3,134,684

Nature of operations and going concern (Note 1)
Commitments (Note 14)
Subsequent event (Note 18)

These condensed consolidated interim financial statements were approved for issue by the Audit Committee on May 28, 2021 and signed on its behalf by:

"Christopher Clark"
Director

"Jason Flowerday"
Director

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

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited, Expressed in Canadian dollars)

	Note	Three Months Ended March 31, 2021 $	Three Months Ended March 31, 2020 $
Revenue			
Promotional	17	481,463	579,450
Product	17	10,358	-
		491,821	579,450
Cost of goods sold		2,613	-
		489,208	579,450
Expenses			
Research and development	15	87,898	14,317
Sales and marketing	15	477,830	451,146
General and administration	15	547,116	522,693
		1,112,844	988,156
Loss before other loss		(623,636)	(408,706)
Other income (loss)			
Interest income	4	1,400	3,013
Foreign exchange gain (loss)		578	(122)
		1,978	2,891
Net loss and comprehensive loss		(621,658)	(405,815)
Basic and diluted loss per common share		(0.01)	(0.01)
Weighted average number of common shares outstanding – basic and diluted		116,433,388	80,436,970

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

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

(Unaudited, Expressed in Canadian dollars)

	Common Shares		Reserves	Deficit	Total
	Number	$	$	$	$
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)
Share-based payments	-	-	253,935	-	253,935
Shares issued for cash pursuant to financing	31,250,000	2,500,000	-	-	2,500,000
Share issuance costs	-	(455,593)	111,008	-	(344,585)
Shares issued – conversion of convertible debt	228,570	48,000	-	-	48,000
Convertible debt	-	(3,023)	(1,627)	-	(4,650)
Net loss for the period	-	-	-	(639,545)	(639,545)
Balance, December 31, 2020	111,916,540	21,172,054	4,101,790	(24,699,890)	573,954
Share-based payments	-	-	94,168	-	94,168
Private placement	6,666,666	1,000,000	-	-	1,000,000
Share issuance costs	-	(5,750)	-	-	(5,750)
Warrant exercised	5,785,750	725,990	-	-	725,990
Shares issued – conversion of convertible debt	1,390,475	292,000	-	-	292,000
Convertible debt	-	(18,391)	(9,902)	-	(28,293)
Net loss for the period	-	-	-	(621,658)	(621,658)
Balance March 31, 2021	125,759,431	23,165,903	4,186,056	(25,321,548)	2,030,411

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

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited, Expressed in Canadian dollars)

	Three Months Ended March 31, 2021 $	Three Months Ended March 31, 2020 $
OPERATING ACTIVITIES		
Net loss	(621,658)	(405,815)
Add items not affecting cash:		
Accretion expense	58,280	93,651
Depreciation of property and equipment	2,225	1,489
Depreciation of intangible assets	-	42,397
Depreciation of right-of-use asset	29,940	29,939
Interest expense	8,002	10,532
Share-based payments	94,168	43,708
	(429,043)	(184,099)
Changes in non-cash working capital items relating to operations:		
Inventory	13,989	5,429
Amounts receivable	294,247	(41,853)
Prepaid expenses	(33,184)	1,428
Accounts payable and accrued liabilities	124,254	98,993
Cash used in operating activities	(29,737)	(120,102)
INVESTING ACTIVITY		
Investment in intangible asset	(35,145)	-
Cash used in investing activity	(35,145)	-
FINANCING ACTIVITIES		
Issuance of common shares, net of issuance costs	1,720,240	-
Payments of lease obligation	(36,800)	(35,880)
Cash provided by (used in) financing activities	1,683,440	(35,880)
Increase (decrease) in cash and cash equivalents	1,618,558	(155,982)
Cash and cash equivalents, beginning	1,718,869	484,506
Cash and cash equivalents, ending	3,337,427	328,524
Non-cash transactions:		
Conversion of bonds into common shares	263,707	-

The accompanying notes are an integral part of these unaudited condensed consolidated interim 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'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. 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 global impact of COVID-19 has resulted in a great deal of volatility and uncertainty in the financial markets, global economy and related supply chains. The financial markets have recovered from their lows although the negative impact from COVID-19 on the Company's financial results remains high and cannot be estimated at this time.

The Company has incurred losses and negative operating cash flows since its inception. As of March 31, 2021, the Company has accumulated a deficit of $25,321,548 (December 31, 2020 - $24,699,890). The Company will require further financing to meet its financial obligations and sustain its operations in the normal course of 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 debt or equity financing and to generate operational cash flow from commercial services revenue. The Company may not be able to raise additional financing on terms agreeable to the Company, or at all.

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 consolidated financial statements for the fiscal year ended December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC").

These condensed consolidated interim financial statements were approved by the Company's Audit Committee on behalf of its Board of Directors on May 28, 2021.

2. BASIS OF PRESENTATION (CONTINUED)

[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.

[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 rates 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 that, 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, Aequus Pharma (Canada) Ltd., formerly TeOra Health Ltd. ("TeOra"). 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.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

iv. Management is required to determine whether 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 the 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 amounts 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 and have been applied to all periods presented, unless otherwise stated. Please refer to the audited consolidated financial statements for the year ended December 31, 2020 for a full list of policies.

For the three months ended March 31, 2021 and 2020 (Unaudited, Expressed in Canadian dollars)

4. CASH AND CASH EQUIVALENTS //

	March 31, 2021 $	December 31, 2020 $
Cash	3,292,398	1,718,746
Short-term investment	45,029	123
	3,337,427	1,718,869

As at March 31, 2021, the Company has two cash collaterals: $21,850 maturing on August 9, 2021 with interest at prime less 2.2% and $23,000 maturing on May 28, 2021 with interest at prime less 1.7%. During the three months ended March 31, 2021, the Company recognized interest income of $1,444; of which $56 (March 31, 2020 - $3,013) is from GICs and $1,344 from the demand deposit account (March 31, 2020 - $nil).

5. INVENTORY //

Inventory consists of finished goods only and is valued at the lower of cost or net realizable value, on a first-in, first-out basis. The cost value for finished goods includes the purchase price, import duties and other directly attributable costs.

The Company evaluates the carrying value of inventories on a regular basis, considering such factors as historical and anticipated future sales compared with quantities on hand, the price the Company expects to obtain for products in their respective markets compared with historical cost and the remaining shelf life of goods on hand.

During the three months ended March 31, 2021, total inventory of $2,613 (March 31, 2020 - $nil) was recognized as cost of goods sold.

For the three months ended March 31, 2021 and 2020 (Unaudited, Expressed in Canadian dollars)

6. PROPERTY AND EQUIPMENT //

	Office Furniture and Equipment $	Computer Equipment $	Website Costs $	Leasehold Improvements $	Total $
Cost:					
Balance, December 31, 2019	10,553	15,652	42,235	4,211	72,651
Addition	-	8,825	-	-	8,825
Balance, December 31, 2020	10,553	24,477	42,235	4,211	81,476
Addition	-	-	-	-	-
Balance, March 31, 2021	10,553	24,477	42,235	4,211	81,476
Accumulated depreciation:					
Balance, December 31, 2019	8,537	6,575	42,235	4,211	61,558
Depreciation	1,008	1,914	-	-	2,922
Balance, December 31, 2020	9,545	8,489	42,235	4,211	64,480
Depreciation	252	1,973	-	-	2,225
Balance, March 31, 2021	9,797	10,462	42,235	4,211	66,705
Net book value:					
As of December 31, 2020	1,008	15,988	-	-	16,996
As of March 31, 2020	756	14,015	-	-	14,771

Property and equipment are reported at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method, commencing when the assets become available for use.

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™ ("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, 2020, the TeOra agreement was fully amortized. The Company continues to maintain the commercial arrangement with Sandoz Canada Inc., who holds the right to Vistitan.

[b] On January 14, 2021, the Company entered into an Online Marketing Service Agreement (the "agreement") with GD Commerce ("GDC"). Pursuant to the agreement, GDC is to provide project-based marketing services, which include, among others, the following deliverables: paid ad strategy, SEO strategy, social media strategy, customer database and website readiness audit.

For the three months ended March 31, 2021 and 2020 (Unaudited, Expressed in Canadian dollars)

7. INTANGIBLE ASSETS (CONTINUED)

[b] (continued)

The following table presents the carrying amount of the intangible assets as at March 31, 2021:

	TeOra Assets $	E-Commerce Platform $	Total $
Cost:			
Balance, December 31, 2019 and December 31, 2020	847,945	-	847,945
Additions	-	35,145	35,145
Balance, March 31, 2021	847,945	35,145	883,090
Accumulated amortization:			
Balance, December 31, 2019	763,150	-	763,150
Amortization of intangible assets	84,795	-	84,795
Balance, December 31, 2020	847,945	-	847,945
Amortization of intangible assets	-	-	-
Balance, March 31, 2021	847,945	-	847,945
Net book value:			
As of December 31, 2020	-	-	-
As of March 31, 2020	-	35,145	35,145

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 *Leases*, the Company 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, December 31, 2019	119,757
Depreciation for the year	119,757
Balance, December 31, 2020	239,514
Depreciation for the period	29,939
Balance, March 31, 2021	269,453
Net book value:	
As of December 31, 2020	349,292
As of March 31, 2021	319,353

For the three months ended March 31, 2021 and 2020 (Unaudited, Expressed in Canadian dollars)

9. LEASE LIABILITY //

	$
Balance, December 31, 2019	451,873
Interest expense	38,431
Lease payments	(143,827)
Balance, December 31, 2020	346,477
Interest expense	8,002
Lease payments	(36,799)
Balance, March 31, 2021	317,680

Which consists of:	
Current lease liability	148,121
Non-current lease liability	169,559
Balance, March 31, 2021	317,680

On December 1, 2018, the Company renewed the lease agreement for its Vancouver head office premises for five years, expiring November 30, 2023. Pursuant to this renewal, the Company is obligated to pay basic rent of $12,267 and operating costs, including electricity and related taxes of approximately $7,570, on a monthly basis. The base annual rent will increase to $150,880 for the year ended December 31, 2022, and $154,560 in 2023.

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 was calculated 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 reserves related to the detachable warrants. The detachable warrants were valued using the Black-Scholes option pricing model.

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 issuance costs 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 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.

During the three months ended March 31, 2021, $292,000 of the convertible debt was converted to 1,390,475 common shares. The discounted value of the converted debt at the time of exercise was $263,707 and a $28,293 adjustment was made to equity.

For the three months ended March 31, 2021 and 2020 (Unaudited, Expressed in Canadian dollars)

10. CONVERTIBLE DEBT (CONTINUED)

For the three months ended March 31, 2021, the Company recorded $59,380 of finance and interest expense and $57,484 in accretion expense (March 31, 2020 - $59,203 and $93,651, respectively) related to the convertible debt.

A continuity schedule of the convertible notes is as follows:

	$
Balance, December 31, 2019	1,765,364
Conversion	(43,350)
Accretion expense	232,433
Balance, December 31, 2020	1,954,447
Conversion	(263,707)
Accretion expense	57,484
Balance, March 31, 2021	1,748,224

11. CEBA LOAN //

The Company was approved for a $40,000 COVID-19 response loan via the Canada Emergency Business Account Program (the "CEBA Loan"). The CEBA Loan is a 0% interest operating line of credit until December 31, 2020. On January 1, 2021, this line of credit converted to a 2-year, 0% interest term loan to be repaid by December 31, 2022. If the loan is not repaid by December 31, 2022, the loan will be converted to a 3-year term loan at an interest rate of 5%. A partial CEBA Loan forgiveness of $10,000 applies if repaid in full by December 31, 2022. The CEBA Loan was recognized at its fair value of $20,800. The fair value of the loan was discounted using an interest rate of 15%. During the three months ended March 31, 2021, accretion expense of $796 (March 31, 2020 - $nil) was recorded relating to the CEBA Loan. The Company anticipates repaying the CEBA Loan prior to December 31, 2022. The fair value of the CEBA Loan as at March 31, 2021 is $23,480.

12. 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.

Amounts due to related parties, including amounts due to key management personnel, at the period-end are unsecured and interest-free, and settlement generally occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Included in accounts payable and accrued liabilities at March 31, 2021, were amounts totaling $13,039 (December 31, 2020 - $nil) due to key management personnel.

For the three months ended March 31, 2021 and 2020 (Unaudited, Expressed in Canadian dollars)

12. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

The following fees and expenses were incurred:

	Three Months Ended March 31, 2021 $	Three Months Ended March 31, 2020 $
Management	141,638	153,981
Consulting	15,000	-
Total	156,638	153,981

[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, 2021 $	Three Months Ended March 31, 2020 $
Management, wages and related, general administration	119,138	92,106
Management, wages and related, research and development	-	8,438
Management, wages and related, sales and marketing	22,500	53,438
Consulting, research and development	15,000	-
Share-based payments, general administration	58,687	4,453
Share-based payments, research and development	-	1,637
Share-based payments, sales and marketing	6,042	21,466
Total	221,367	181,538

[c] Other

The Company charges office lease to Northview Lifesciences, a company with a common management and director, and Fehr & Associates, a company with common management. During the three months ended March 31, 2021, office lease expenditures and operating costs billed to Northview Lifesciences and Fehr & Associates amounted to $2,160 and $13,644 (March 31, 2020 - $163 and $11,836), respectively. As at March 31, 2021, the Company was due $2,268 and $252 from Northview Lifesciences and Fehr & Associates (December 31, 2020 - $171 and $12,428), respectively.

For the three months ended March 31, 2021 and 2020 (Unaudited, Expressed in Canadian dollars)

13. 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, 2021 and December 31, 2020, 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, 2021:

i. Convertible Debenture Units were converted into 1,390,475 common shares at a conversion price of $0.21 per common share for a total amount of $292,000, and $4,805 of accrued interest was paid out.
ii. The Company issued 5,468,750 shares at $0.12 per share pursuant to the exercise of warrants for net proceeds of $656,250.
iii. The Company issued 317,000 shares at $0.22 per share pursuant to the exercise of warrants for net proceeds of $69,740.
iv. On February 26, 2021, the Company closed a private placement of 6,666,666 units at a price of $0.15 per unit, for proceeds of $1,000,000, to Marc Lustig, a director of the Company. Each unit shall consist of one common share and one-half of one warrant. Each warrant shall entitle the holder to purchase one common share at an exercise price of $0.25 for 24 months.

[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, 2019	10,524,740	0.28
Issued	15,625,000	0.12
Expired	(4,937,500)	(0.34)
Balance, December 31, 2020	21,212,240	0.15
Issued	3,333,333	0.25
Exercised	(5,785,750)	(0.13)
Balance, March 31, 2021	18,759,823	0.18

Date of Expiry	Number of Warrants Outstanding	Exercise Price $
February 26, 2023	3,333,333	0.25
August 6, 2023	10,156,250	0.12
May 2, 2022	5,270,240	0.22
Balance, March 31, 2021	18,759,823	

The remaining life of the common share purchase warrants as of March 31, 2021 is 1.92 (December 31, 2020 - 2.27) years.

For the three months ended March 31, 2021 and 2020 (Unaudited, Expressed in Canadian dollars)

13. SHARE CAPITAL (CONTINUED)

[c] Common share purchase warrants (continued)

On March 2, 2021, the Company elected to exercise its right to trigger an accelerated expiry under the terms of a warrant indenture dated August 6, 2020; 3,281,250 outstanding warrants with an exercise price of $0.12 expired unexercised subsequent to March 31, 2021.

[d] Broker warrants

	Number	Weighted Average Exercise Price $
Balance, December 31, 2019	1,340,092	0.23
Expired	(166,250)	(0.30)
Balance, December 31, 2020 and March 31, 2021	1,173,842	0.22

At March 31, 2021, 1,173,842 broker warrants with an exercise price of $0.22 and an expiry date of May 2, 2022 were outstanding. The remaining life of the broker warrants at March 31, 2021 is 1.09 (December 31, 2020 - 1.84) years.

[e] Compensation warrants

During the year ended December 31, 2020, the Company issued 781,250 compensation warrants with an exercise price of $0.08. Each compensation warrant entitles the agent to purchase one unit at a price of $0.08 for 36 months, with each unit consisting of one common share and one-half of one warrant (each whole common share purchase warrant, a "Broker Warrant"). At December 31, 2020, there were 781,250 compensation warrants outstanding with an expiry date of August 6, 2023.

On March 2, 2021, the Company elected to exercise its expiry acceleration right under the terms of a warrant indenture, and as such, on April 1, 2021, 781,250 Broker Warrants related to the compensation warrants, with an exercise price of $0.12, expired unexercised.

[f] 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 Amended and Restated 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.

For the three months ended March 31, 2021 and 2020 (Unaudited, Expressed in Canadian dollars)

13. SHARE CAPITAL (CONTINUED)

[f] Stock options (continued)

During the three months ended March 31, 2021, the Company recorded share-based payments of $94,168 (March 31, 2020 - $43,708) related to stock options that vested in the period. The fair value of 545,000 stock options granted during the three months ended March 31, 2021 (March 31, 2020 - 450,000) is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Risk-free interest rate	0.77%	1.38%
Estimated annualized volatility	92.14%	88.95%
Expected life	8 years	8 years
Expected dividend yield	0%	0%
Exercise price	$0.18	$0.13
Fair value per option	$0.15	$0.11

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

	Number	Weighted Average Exercise Price $
Balance, December 31, 2019	8,098,278	0.30
Expired	(1,124,337)	(0.25)
Cancelled	(1,768,941)	(0.37)
Granted	4,769,337	0.11
Balance, December 31, 2020	9,974,337	0.21
Expired	(300,000)	(0.20)
Granted	545,000	(0.18)
Balance, March 31, 2021	10,219,337	0.21

For the three months ended March 31, 2021 and 2020 (Unaudited, Expressed in Canadian dollars)

13. SHARE CAPITAL (CONTINUED)

[f] Stock options (continued)

Date of Expiry	Exercise Price $	Number of Options Outstanding	Number of Options Exercisable
December 12, 2021	0.35	565,000	565,000
August 21, 2022	0.13	250,000	250,000
October 13, 2022	0.12	500,000	250,000
December 18, 2022	0.55	350,000	350,000
March 6, 2023	0.55	350,000	350,000
July 9, 2023	0.57	150,000	150,000
April 21, 2024	0.47	370,000	370,000
July 22, 2024	0.35	150,000	150,000
December 6, 2025	0.20	1,540,000	1,540,000
April 26, 2026	0.25	30,000	30,000
November 6, 2026	0.18	800,000	800,000
February 1, 2027	0.18	600,000	275,000
February 14, 2028	0.13	450,000	200,000
June 4, 2028	0.09	1,124,337	562,169
August 23, 2028	0.13	1,000,000	250,000
December 8, 2028	0.11	1,445,000	536,250
January 8, 2029	0.10	180,000	180,000
January 25, 2029	0.14	15,000	15,000
February 15, 2029	0.23	350,000	175,000
Total	0.24	10,219,337	7,205,919

As of March 31, 2021, the weighted average remaining life for outstanding options was 5.18 (March 31, 2020 - 4.46) years.

14. COMMITMENTS //

Licensing 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 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. Development activity related to this agreement has been suspended.

For the three months ended March 31, 2021 and 2020 (Unaudited, Expressed in Canadian dollars)

15. OPERATING EXPENSES //

[a] Research and development expenses

	Three Months Ended March 31, 2021 $	Three Months Ended March 31, 2020 $
Consulting	80,284	-
Development costs	7,528	-
Management, wages and related (Note 12)	-	8,438
Patent and intellectual property protection	86	610
Share-based payments (Notes 12 and 13)	-	5,186
Travel and accommodation	-	83
Total	87,898	14,317

[b] Sales and marketing expenses

	Three Months Ended March 31, 2021 $	Three Months Ended March 31, 2020 $
Advertising and promotion	50,556	12,958
Consulting	5,855	-
Depreciation and amortization (Notes 6 and 7)	2,225	43,886
Management, wages and related (Note 12)	15,000	30,000
Printing and other	22,150	1,765
Sales force	336,330	274,950
Share-based payments (Notes 12 and 13)	43,053	31,948
Travel and accommodation	2,661	55,639
Total	477,830	451,146

[c] General and administration expenses

	Three Months Ended March 31, 2021 $	Three Months Ended March 31, 2020 $
Accretion (Notes 10 and 11)	58,280	93,651
Consulting	73,828	31,813
Depreciation of right-of-use lease asset (Note 8)	29,939	29,939
Interest (Notes 9 and 10)	67,382	69,735
Legal and professional fees	22,530	56,869
Management, wages and related (Note 12)	152,919	115,985
Office and general	68,240	61,055
Regulatory and transfer agent fees	14,994	23,300
Share-based payments (Notes 12 and 13)	51,115	6,574
Travel and accommodation	7,889	33,772
Total	547,116	522,693

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT //

Fair value

The Company's financial instruments at March 31, 2021 include cash and cash equivalents, amounts receivable, accounts payable, accrued liabilities, convertible debt and CEBA Loan. The fair values of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

IFRS 13 *Fair Value Measurement* 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 liability, 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 values of the convertible debt and CEBA Loan at issuance were determined using 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 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 investment certificates ("GIC") with banks and government guaranteed securities with maturities of one year or less. The Company has a cashable GIC at March 31, 2021 of $nil (December 31, 2020 - $nil).

[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, 2021, the Company had working capital of $3,602,405 (December 31, 2020 - $2,384,073).

[c] Market risk

i. Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in the market interest rates. The Company is not exposed to significant cash flow fluctuations due to interest rate changes on its convertible notes, as these bear interest at a fixed rate of 9.5%. As such, fluctuations in the market interest rates during the three months ended March 31, 2021 and year ended December 31, 2020 had no significant impact on its interest income.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[c] Market risk (continued)

ii. Currency risk

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

As at March 31, 2020 and December 31, 2020, the Company had the following assets and liabilities denominated in US dollars:

	March 31, 2021 US$	December 31, 2020 US$
Cash and cash equivalents	1,341	1,371
Accounts payable and accrued liabilities	(10,254)	(4,261)
Total	(8,913)	(2,890)

The Company does not currently hold Euros. Based on the above net exposure as at March 31, 2021, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the US dollar would result in a change of US$446 (December 31, 2020 - US$145) in the Company's net loss. Furthermore, the Company incurred US$9,103 of expenditures during the three months ended March 31, 2021 (March 31, 2020 - US$16,732). A 5% appreciation or deterioration of the Canadian dollar against the US dollar would result in a change of US$455.

[d] Capital disclosure

The Company's objective when managing capital is 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, reserves and convertible debentures. 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 adjusts it considering 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, 2021 and year ended December 31, 2020.

17. SEGMENTED DISCLOSURE //

The Chief Executive Officer is the Company's chief operating decision-maker ("CODM"). The Company has determined that there are two operating segments based on the information reviewed by the (CODM) for the purposes of allocating resources and assessing performance. The Company's reportable segments are comprised of the commercial platform and the development pipeline.

The Company received revenues from the sale of dry-eye products and by providing promotional services to sell third-party owned products, namely Tacrolimus IR and Vistitan. Over 97% of its generated revenues are from one arm's length customer. The Company operates in one geographical segment, being the Canadian market.

For the three months ended March 31, 2021, the Company had revenues of $481,463 and $10,358 for promotional services and dry-eye products sales, respectively.

At March 31, 2021, the Company has dry-eye product inventory in the amount of $109,333 (December 31, 2020 - $123,322).

18. SUBSEQUENT EVENT //

Subsequent to the three months ended March 31, 2021, the Company issued 6,875,000 shares at $0.12 per share pursuant to the exercise of warrants for net proceeds of $825,000.