AEQUUS PHARMACEUTICALS INC.

// CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2020 and 2019

(Unaudited – Expressed in Canadian dollars)

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian dollars

	Note	September 30, 2020 $	December 31, 2019 $
ASSETS		(unaudited)	
Current			
Cash and cash equivalents	4	2,338,141	484,506
Inventory		-	5,429
Amounts receivable		629,928	556,296
Prepaid expenses		334,535	61,503
		3,302,604	1,107,734
Property and equipment	5	19,910	11,093
Intangible assets, net	6	-	84,795
Right-of-use lease asset, net	7	379,231	469,049
Total assets		3,701,745	1,672,671
LIABILITIES AND SHAREHOLDERS' DEFICIT			
LIABILITIES			
Current			
Accounts payable	11, 15	508,430	249,528
Accrued liabilities	15	133,914	83,000
Lease liability – current	8	146,280	143,520
		788,624	476,048
COVID-19 relief line of credit	10	22,000	-
Lease liability	8	227,715	308,353
Convertible debt, net	9	2,030,997	1,765,364
Total liabilities		3,069,336	2,549,765
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	12	21,172,506	19,082,670
Contributed surplus		3,994,417	3,694,766
Deficit		(24,534,514)	(23,654,530)
Total shareholders' equity (deficit)		632,409	(877,094)
Total liabilities and shareholders' equity (deficit)		3,701,745	1,672,671

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 13)
Subsequent event (Note 17)

These condensed consolidated interim financial statements were approved for issue by the Audit Committee on November 29, 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

Unaudited – Expressed in Canadian dollars

	Note	Three Months Ended September 30, 2020 $	Three Months Ended September 30, 2019 $	Nine Months Ended September 30, 2020 $	Nine Months Ended September 30, 2019 $
Revenue		618,984	370,799	1,741,426	1,097,058
Expenses					
Research and development	14	12,997	57,280	41,054	178,851
Sales and marketing	14	292,343	417,950	1,013,785	1,378,231
General administration	14	582,525	560,291	1,586,826	1,618,663
		887,865	1,035,521	2,641,665	3,175,745
Loss before other income (loss)		(268,881)	(664,722)	(900,239)	(2,078,687)
Other income (loss)					
Interest income	4	95	9,431	3,128	9,809
Income from government assistance		19,200	-	19,200	-
Foreign exchange gain (loss)		(2,335)	(5,241)	(2,073)	128
		16,960	4,190	20,255	9,937
Net loss and comprehensive loss		(251,921)	(660,532)	(879,984)	(2,068,750)
Basic and diluted loss per common share		(0.00)	(0.01)	(0.01)	(0.03)
Weighted average number of common shares outstanding – basic and diluted		99,724,469	80,437,970	86,866,803	80,437,448

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

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

Unaudited – Expressed in Canadian dollars

	Common Shares		Contributed Surplus	Deficit	Total
	Number	$	$	$	$
Balance, December 31, 2018	80,436,970	18,934,573	3,297,163	(20,550,102)	1,681,634
Share-based payments	-	-	165,282	-	165,282
Adjustment on adoption of IFRS 16 (Note 7)	-	-	-	1,676	1,676
Warrants exercised	1,000	220	-	-	220
Issuance of convertible debt	-	196,229	105,662	-	301,891
Share issuance costs	-	(13,287)	-	-	(13,287)
Broker warrants	-	-	116,973	-	116,973
Net loss for the period	-	-	-	(2,068,750)	(2,068,750)
Balance, September 30, 2019	80,437,970	19,117,735	3,685,080	(22,617,176)	185,639
Share-based payments	-	-	35,722	-	35,722
Issuance of convertible debt	-	(35,065)	(26,036)	-	(61,101)
Net loss for the period	-	-	-	(1,037,354)	(1,037,354)
Balance, December 31, 2019	80,437,970	19,082,670	3,694,766	(23,654,530)	(877,094)
Share-based payments	-	-	190,271	-	190,271
Shares issued for cash pursuant to financing	31,250,000	2,500,000	-	-	2,500,000
Share issuance cost	-	(455,141)	111,008	-	(344,133)
Shares issued – conversion of convertible debt	228,570	48,000	-	-	48,000
Convertible debt	-	(3,023)	(1,628)	-	(4,651)
Net loss for the period	-	-	-	(879,984)	(879,984)
Balance, September 30, 2020	111,916,540	21,172,506	3,994,417	(24,534,514)	632,409

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

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Unaudited – Expressed in Canadian dollars

	Nine Months Ended September 30, 2020 $	Nine Months Ended September 30, 2019 $
OPERATING ACTIVITIES		
Net loss	(879,984)	(2,068,750)
Add items not affecting cash:		
Accretion expense	310,182	78,911
Depreciation of property and equipment	(8,817)	14,935
Depreciation of intangible assets	84,795	127,192
Depreciation of right-of-use asset	89,818	89,818
Interest expense	29,762	36,646
Share-based payments	190,271	165,282
	(183,973)	(1,555,966)
Changes in non-cash working capital items relating to operations:		
Inventory	5,429	7,264
Amounts receivable	(73,632)	334,689
Prepaid expenses	(273,032)	24,381
Accounts payable and accrued liabilities	309,816	(122,138)
Cash used in operating activities	(215,392)	(1,311,770)
FINANCING ACTIVITIES		
Issuance of common shares, net of issuance costs	2,155,867	220
Issuance of convertible debt, net of issuance costs	-	2,095,060
COVID-19 relief line of credit	20,800	-
Payments of lease obligation	(107,640)	(104,880)
Cash provided by financing activities	2,069,027	1,990,400
Increase in cash and cash equivalents	1,853,635	678,630
Cash and cash equivalents, beginning	484,506	369,892
Cash and cash equivalents, ending	2,338,141	1,048,522

The accompanying notes are an integral part of these 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 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 September 30, 2020, the Company has accumulated a deficit of $(24,534,514) (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 consolidated financial statements for the fiscal year ended December 31, 2019, which have been prepared with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These condensed consolidated interim financial statements were approved by the Company's Audit Committee on behalf of its Board of Directors on November 29, 2020.

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 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 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. 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 the periods presented, unless otherwise stated. Please refer to the audited consolidated financial statements for the year ended December 31, 2019 for a full list of policies.

For the Nine Months ended September 30, 2020 and 2019 (Unaudited – Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

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.

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 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 did not have a significant impact on the Company's condensed consolidated interim financial statements.

4. CASH AND CASH EQUIVALENTS //

	September 30, 2020 $	December 31, 2019 $
Cash	2,338,075	182,779
Short-term investment	66	301,727
Total cash and cash equivalents	2,338,141	484,506

At September 30, 2020, the Company has a variable rate investment of $nil (December 31, 2019 - $300,000), as the Company redeemed the investment in full. During the nine months ended September 30, 2020, the Company recognized interest income of $3,128 (2019 - $9,809).

For the Nine Months ended September 30, 2020 and 2019 (Unaudited – Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT //

	Office Furniture and Equipment $	Computer Equipment $	Website Costs $	Leasehold Improvements $	Total $
Cost:					
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
Addition	-	13,607	-	-	13,607
Balance, September 30, 2020	10,553	29,259	42,235	4,211	86,258
Accumulated depreciation:					
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
Depreciation	756	4,034	-	-	4,790
Balance, September 30, 2020	9,293	10,609	42,235	4,211	66,348
Net book value:					
As of December 31, 2019	2,016	9,077	-	-	11,093
As of September 30, 2020	1,260	18,650	-	-	19,910

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™ ("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. ("Supernus") 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 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.

For the Nine Months ended September 30, 2020 and 2019 (Unaudited – Expressed in Canadian dollars)

6. INTANGIBLE ASSETS (CONTINUED)

[b] (continued)

	TeOra Assets $	Supernus Licensing Fee $	Total $
Cost:			
Balance, December 31, 2018	847,945	478,940	1,326,885
Impairment	-	(478,940)	(478,940)
Balance, December 31, 2019 and September 30, 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	84,795	-	84,795
Balance, September 30, 2020	847,945	-	847,945
Net book value:			
As of December 31, 2019	84,795	-	84,795
As of September 30, 2020	-	-	-

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 *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 at January 1, 2019, on adoption of IFRS 16	-
Depreciation for the period	119,757
Balance, December 31, 2019	119,757
Depreciation for the period	89,818
Balance, September 30, 2020	209,575
Net book value:	
As of January 1, 2019, on adoption of IFRS 16	588,806
As of December 31, 2019	469,049
As of September 30, 2020	379,231

For the Nine Months ended September 30, 2020 and 2019 (Unaudited – Expressed in Canadian dollars)

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	29,762
Lease payments	(107,640)
Balance, September 30, 2020	373,995

Which consists of:	
Current lease liability	146,280
Non-current lease liability	227,715
Balance, September 30, 2020	373,995

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.

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 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 contributed surplus 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 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 Nine Months ended September 30, 2020 and 2019 (Unaudited – Expressed in Canadian dollars)

9. CONVERTIBLE DEBT (CONTINUED)

For the nine months ended September 30, 2020, the Company recorded $111,530 of interest expense and $308,982 in accretion expense (2019 - $78,911) 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
Early conversion	(43,349)
Accretion expense	308,982
Balance, September 30, 2020	2,030,997

10. COVID-19 RELIEF LINE OF CREDIT //

The Company was approved for a $40,000 COVID-19 Relief Line of Credit (via Canada Emergency Business Account Program) (the "Loan"). 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. A partial Loan forgiveness of $10,000 applies if repaid in full by December 31, 2022. The Loan is recognized at a fair market value of $20,800. The fair value of the loan was calculated using an estimated annual interest rate of 15%. As at September 30, 2020, the face value of the note is $30,000 and the amortized cost is $9,200 (2019 - $nil). During the period ended September 30, 2020, accretion expense of $1,200 (2019 - $nil) was recorded related to the Loan.

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:

	Three Months Ended September 30, 2020 $	Three Months Ended September 30, 2019 $	Nine Months Ended September 30, 2020 $	Nine Months Ended September 30, 2019 $
Management [i] [ii] [iii] [v] [vi]	142,675	159,052	437,690	436,239
Consulting [iv]	-	-	-	7,321
Total	142,675	159,052	437,690	443,560

11. RELATED PARTY DISCLOSURE (CONTINUED)

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 nine months ended September 30, 2020, NVI received $155,625 (September 30, 2019 - $135,000) in management fees. As of September 30, 2020, the Company has included in its accounts payable and accrued liabilities $5,906 (December 31, 2019 - $nil) due to NVI.

ii. Anne Stevens, the Chief Operating Officer, was compensated at a monthly rate of $10,449 from August 31, 2018 to September 30, 2019, and $15,625 thereafter. During the nine months ended September 30, 2020, Ms. Stevens received $129,688 (2019 - $94,115) in salary.

iii. The Company entered into a consulting service agreement with Ian Ball, the former Chief Commercial Officer of the Company. During the nine months ended September 30, 2020, the Company recognized management fee expense of $15,000 (2019 - $108,000) related to Mr. Ball's services.

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 nine months ended September 30, 2020, Dr. McAfee charged total consulting fees of $nil (2019 - $7,321).

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 nine months ended September 30, 2020, Fehr & Associates charged total consulting fees of $92,378 (2019 - $99,123) for CFO and outsourced accounting services. As of September 30, 2020, the Company has included in its accounts payable and accrued liabilities $26,783 (December 31, 2019 - $7,690) 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 nine months ended September 30, 2020, the Company recognized consulting expense of $45,000 (2019 - $nil) related to Mr. Fowler's services. As of September 30, 2020, the Company has included in its accounts payable $5,650 (December 31, 2019 - $nil) due to Mr. Fowler.

The amounts owing to the related parties as described above are non-secured, non-interest-bearing and without specific terms of repayment.

For the Nine Months ended September 30, 2020 and 2019 (Unaudited – 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:

	Three Months Ended September 30, 2020 $	Three Months Ended September 30, 2019 $	Nine Months Ended September 30, 2020 $	Nine Months Ended September 30, 2019 $
Management, wages and related, general administration	98,487	116,052	289,503	308,760
Management, wages and related, research and development	7,313	19,600	23,344	57,279
Management, wages and related, sales and marketing	36,875	23,400	124,844	70,200
Consulting, research and development	-	-	-	7,321
Share-based payments, general administration	8,388	10,372	39,535	28,050
Share-based payments, research and development	1,673	5,698	4,965	17,611
Share-based payments, sales and marketing	42,013	1,639	90,575	5,715
Total	194,749	176,761	572,766	494,936

[c] Other

The Company entered into two separate sublease agreements with Northview Lifesciences and Fehr & Associates for recovery of rent expense. During the nine months ended September 30, 2020, the Company received $473 and $33,743 (2019 - $4,970 and $39,375), respectively.

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 September 30, 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.

12. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

During the period ended September 30, 2020:

i. On August 6, 2020, the Company completed a $2.5 million equity financing. The Company issued 31,250,000 units at a price of $0.08 per unit for aggregate proceeds of $2.5 million. Each unit is comprised of one common share in the capital of the Company and one-half of one common share purchase warrant of the Company (each whole common share purchase warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one common share at an exercise price of $0.12 per common share for a period of 36 months following the closing date of the offering, being August 6, 2020 (the "Closing Date"). 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 $0.20 for ten consecutive trading days.

   The units were issued pursuant to an agency agreement (the "Agency Agreement") between the Company and Cormark Securities Inc. (the "Agent"). In accordance with the Agency Agreement, the Agent received: (i) a cash commission equal to 5% of the aggregate gross proceeds of the offering; and (ii) broker warrants (the "Compensation Warrants") equal to 5% of the aggregate number of units issued and sold under the offering. Each Compensation Warrant entitles the Agent to purchase one unit at a price of $0.08 for a period of 36 months following the Closing Date, with each unit consisting of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Broker Warrant") of the Company. Each Broker Warrant will entitle the holder thereof to acquire one common share at an exercise price of $0.12 until the date that is 36 months following the Closing Date, subject to adjustment and/or acceleration in certain events.

   As per the Company's accounting policy of equity and share capital, 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. The market value of one common share on the Closing Date was $0.085, which is more than the unit price of $0.08. Therefore, no value was allocated to the Warrants.

   The Company recognized $77,906 and $33,102 as share issuance costs related to the Compensation Warrants and Broker Warrants, respectively, which were both valued using the Black-Scholes option pricing model under the following assumptions: a risk-free interest rate of 0.26%, estimated annualized volatility of 91.52%, an expected life of 3 years, nil dividend yield and a $0.185 share price. An exercise price of $0.08 was used for Compensation Warrants and $0.12 was used for Brokers Warrants.

ii. During the period ended September 30, 2020, the Convertible Debenture Units were converted into 228,570 common shares at a conversion price of $0.21 per common share for a total amount of $48,000, and $877 of accrued interest was paid out.

For the Nine Months ended September 30, 2020 and 2019 (Unaudited – Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[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
Issued	15,625,000	0.12
Expired	(4,937,500)	(0.34)
Balance, September 30, 2020	21,212,240	0.15

Date of Expiry	Number of Warrants Outstanding	Exercise Price $
August 6, 2023	15,625,000	0.12
May 2, 2022	5,587,240	0.22
Balance, September 30, 2020	21,212,240	

The remaining life of the common share purchase warrants as of September 30, 2020 is 2.52 (December 31, 2019 - 1.48) years.

[d] Agent warrants and broker 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	1,340,092	0.23
Issued	781,250	0.12
Expired	(166,250)	(0.30)
Balance, September 30, 2020	1,955,092	0.16

Date of Expiry	Number of Warrants Outstanding	Exercise Price $
August 6, 2023	781,250	0.12
May 2, 2022	1,173,842	0.22
Balance, September 30, 2020	1,955,092	

The remaining life of the agent warrants at September 30, 2020 is 2.09 (December 31, 2019 - 2.12) years.

For the Nine Months ended September 30, 2020 and 2019 (Unaudited – 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 nine months ended September 30, 2020, the Company recorded share-based payments of $190,271 (2019 - $165,282) related to stock options that vested in the period. The fair values of 2,824,337 stock options granted during the nine months ended September 30, 2020 are estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Risk-free interest rate	0.63%	1.91%
Estimated annualized volatility	93.09%	91.24%
Expected life	7.47 years	8 years
Expected dividend yield	0%	0%
Exercise price	$0.11	$0.18
Fair value per option	$0.09	$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	(1,124,337)	(0.25)
Cancelled	(1,768,941)	(0.37)
Granted	2,824,337	0.11
Balance, September 30, 2020	8,029,337	0.23

For the Nine Months ended September 30, 2020 and 2019 (Unaudited – 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
December 12, 2021	0.35	565,000	565,000
August 21, 2022	0.13	250,000	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
August 23, 2023	0.13	1,000,000	250,000
April 21, 2024	0.47	370,000	370,000
July 22, 2024	0.35	150,000	150,000
December 6, 2025	0.20	1,840,000	1,390,000
April 26, 2026	0.25	30,000	30,000
November 6, 2026	0.18	800,000	600,000
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
Total	0.25	8,029,337	5,492,169

As of September 30, 2020, the weighted average remaining life for outstanding options was 4.67 (December 31, 2019 - 4.70) years.

13. COMMITMENTS AND CONTINGENCIES //

[a] Licensing agreement

Pursuant to the terms of the Supernus Agreement *[Note 6[b]]*, 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.

[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.

For the Nine Months ended September 30, 2020 and 2019 (Unaudited – Expressed in Canadian dollars)

13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

[b] Contingencies (continued)

As of September 30, 2020 and December 31, 2019, the Company had not made any indemnification payments under such agreements, and no amount has been accrued in the condensed consolidated interim financial statements with respect to these indemnification obligations.

14. OPERATING EXPENSES //

[a] Research and development expenses

	Three Months Ended September 30, 2020 $	Three Months Ended September 30, 2019 $	Nine Months Ended September 30, 2020 $	Nine Months Ended September 30, 2019 $
Consulting *[Note 11]*	-	-	-	27,079
Patent and intellectual property protection	142	18,726	1,936	37,455
Management, wages and related *[Note 11]*	7,594	21,866	23,344	65,040
Share-based payments *[Notes 11 and 12]*	5,261	15,648	15,691	47,249
Travel and accommodation	-	1,040	83	2,028
Total	12,997	57,280	41,054	178,851

[b] Sales and marketing expenses

	Three Months Ended September 30, 2020 $	Three Months Ended September 30, 2019 $	Nine Months Ended September 30, 2020 $	Nine Months Ended September 30, 2019 $
Advertising and promotion	17,090	14,615	55,244	61,189
Depreciation and amortization *[Notes 5 and 6]*	1,812	47,327	89,586	142,127
Printing and other expenses	3,583	17,679	9,525	24,596
Management, wages and related *[Note 11]*	15,000	23,400	60,000	70,200
Salesforce	192,103	245,276	613,564	776,174
Share-based payments *[Notes 11 and 12]*	47,938	13,474	113,675	62,955
Travel and accommodation	14,817	56,179	72,191	240,990
Total	292,343	417,950	1,013,785	1,378,231

For the Nine Months ended September 30, 2020 and 2019 (Unaudited – Expressed in Canadian dollars)

14. OPERATING EXPENSES (CONTINUED)

[c] General administration expenses

	Three Months Ended September 30, 2020 $	Three Months Ended September 30, 2019 $	Nine Months Ended September 30, 2020 $	Nine Months Ended September 30, 2019 $
Consulting	110,217	78,312	174,128	324,391
Legal and professional fees	18,192	62,297	97,371	132,343
Other general administration expenses	91,464	99,500	284,445	263,824
Interest expense	82,239	69,367	219,807	130,285
Accretion expense *[Notes 9 and 10]*	111,060	49,144	310,182	78,911
Regulatory and transfer agent fees	12,104	13,002	42,765	51,656
Management, wages and related *[Note 11]*	128,772	135,833	357,481	458,506
Share-based payments *[Notes 11 and 12]*	25,904	15,206	60,905	55,079
Travel and accommodation	2,573	37,630	39,742	123,668
Total	582,525	560,291	1,586,826	1,618,663

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT //

Fair value

The Company's financial instruments at September 30, 2020 include cash and cash equivalents, amounts receivable, accounts payable, accrued liabilities and convertible debentures. 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.

[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 investments ("GIC") with banks, and government guaranteed securities with maturities of one year or less. The Company has a cashable GIC at September 30, 2020 of $nil (December 31, 2019 - $300,000).

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[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 September 30, 2020, the Company had working capital of $2,513,980 (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 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 nine months ended September 30, 2020 and year ended December 31, 2019 had no significant impact on its interest income.

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 US dollars. 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 could have an effect on the Company's results of operations, financial position or cash flows.

As at September 30, 2020 and December 31, 2019, the Company had the following assets and liabilities denominated in US dollars:

	September 30, 2020 US $	December 31, 2019 US $
Cash and cash equivalents	1,431	1,491
Accounts payable and accrued liabilities	-	-
Total	1,431	1,491

Based on the above net exposure as at September 30, 2020, 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$72 (December 31, 2019 - US$75) in the Company's net loss. Furthermore, the Company incurred US$103,588 expenditures during the nine months ended September 30, 2020 (2019 - US$85,849). A 5% appreciation or deterioration of the Canadian dollar against the US dollar would result in a change of US$5,179.

The Company also incurred €97,500 expenditures during the nine months ended September 30, 2020 (2019 - €nil).

For the Nine Months ended September 30, 2020 and 2019 (Unaudited – Expressed in Canadian dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[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 $2,030,997. 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 nine months ended September 30, 2020 and year ended December 31, 2019.

16. 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 nine months ended September 30, 2020 and 2019. The revenue related to the commercial platform during the nine months ended September 30, 2020 was $1,741,426 (2019 - $1,097,058). The Company received revenues by providing promotional services to sell third-party owned products, Tacrolimus IR and Vistitan. One hundred percent of its generated revenues are from one arm's length customer. The Company operates in one geographical segment, being the Canadian market.

Expenses from the two operating segments are summarized as follows:

	Three Months Ended September 30, 2020 $	Three Months Ended September 30, 2019 $	Nine Months Ended September 30, 2020 $	Nine Months Ended September 30, 2019 $
Development pipeline (1)	12,997	57,280	41,054	178,851
Commercial platform (1)(2)	292,343	417,950	1,013,785	1,378,231
General corporate expenses	582,525	560,291	1,586,826	1,618,663
Total	887,865	1,035,521	2,641,665	3,175,745

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

(2) The intangible asset at September 30, 2020 of $nil (December 31, 2019 - $84,795) is associated with the commercial platform *[Note 6(b)]*.

17. SUBSEQUENT EVENT //

On October 13, 2020, the Company granted 500,000 options to a consultant, exercisable at $0.12 per share expiring two years from the grant date.