# AEQUUS PHARMACEUTICALS INC.

## // CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2019 and 2018

*(Unaudited - Expressed in Canadian dollars)*

## // CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

*Expressed in Canadian dollars*

| | Note | June 30, 2019 (unaudited) $ | December 31,2018 (audited) $ |
|---|---|---|---|
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | 4 | 1,457,464 | 369,892 |
| Inventory | | 5,429 | 12,693 |
| Accounts receivable | | 433,006 | 731,151 |
| Prepaid expenses and deposit | 5 | 51,571 | 121,336 |
| | | 1,947,470 | 1,235,072 |
| Property and equipment, net | 6 | 18,130 | 28,135 |
| Intangible assets, net | 7 | 648,530 | 733,324 |
| Right of use lease asset, net | 8 | 528,928 | - |
| | | 1,195,588 | 761,459 |
| Total assets | | 3,143,058 | 1,996,531 |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable | | 245,149 | 268,652 |
| Accrued liabilities | | 58,380 | 46,245 |
| Lease liability - current | 9 | 141,680 | - |
| | | 445,209 | 314,897 |
| Lease liability | | 357,627 | - |
| Convertible debt, net | 10 | 1,525,090 | - |
| Total liabilities | | 2,327,926 | 314,897 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 12 | 19,131,022 | 18,934,573 |
| Contributed surplus | | 3,640,754 | 3,297,163 |
| Deficit | | (21,956,644) | (20,550,102) |
| Total shareholders' equity | | 815,132 | 1,681,634 |
| Total liabilities and shareholders' equity | | 3,143,058 | 1,996,531 |

Going concern [Note 1]
Commitments [Notes 9 & 13]

These condensed consolidated interim financial statements were approved for issue on August 26, 2019 and signed on its behalf by:

/s/ Douglas G. Janzen
Director

/s/ Christopher Clark
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 June 30, 2019 $ | Three Months Ended June 30, 2018 $ | Six Months Ended June 30, 2019 $ | Six Months Ended June 30, 2018 $ |
|---|---|---|---|---|---|
| Revenue | | 397,263 | 377,855 | 726,259 | 752,855 |
| Expenses | | | | | |
| Research and development | 14 | 52,493 | 179,963 | 121,571 | 372,930 |
| Sales and marketing | 14 | 451,185 | 363,846 | 960,281 | 702,828 |
| General administration | 14 | 575,841 | 502,971 | 1,058,372 | 1,161,806 |
| | | 1,079,519 | 1,046,780 | 2,140,224 | 2,237,564 |
| Loss before other income (loss) | | (682,256) | (668,925) | (1,413,965) | (1,484,709) |
| Other income (loss) | | | | | |
| Interest income (expense) | 4 | (371) | 228 | 5,373 | 2,454 |
| Foreign exchange gain (loss) | | 4,624 | 2,454 | 374 | (472) |
| | | 4,253 | 2,682 | 5,747 | 1,982 |
| Net loss and comprehensive loss | | (678,003) | (666,243) | (1,408,218) | (1,482,727) |
| Basic and diluted loss per common share | | (0.01) | (0.01) | (0.02) | (0.02) |
| Weighted average number of common shares outstanding – basic and diluted | | 80,436,970 | 72,285,907 | 80,437,181 | 72,285,907 |

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

## // CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

*Unaudited - Expressed in Canadian dollars*

| | Common Shares | | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|
| | Number | $ | $ | $ | $ |
| Balance, December 31, 2017 | 71,351,138 | 17,095,063 | 2,956,312 | (17,746,362) | 2,305,013 |
| Shares issued for cash pursuant to financing | 1,000,000 | 300,000 | - | - | 300,000 |
| Share issue costs | - | (15,270) | - | - | (15,270) |
| Shares issued for services | 210,832 | 62,861 | - | - | 62,861 |
| Share based payments | - | - | 123,327 | - | 123,327 |
| Net loss for the period | - | - | - | (1,482,727) | (1,482,727) |
| Balance, June 30, 2018 | 72,561,970 | 17,442,654 | 3,079,639 | (19,229,089) | 1,293,204 |
| Shares issued for cash pursuant to financing | 7,875,000 | 1,575,000 | - | - | 1,575,000 |
| Share issue costs | - | (83,081) | 13,799 | - | (69,282) |
| Share based payments | - | - | 203,725 | - | 203,725 |
| Net loss for the period | - | - | - | (1,321,013) | (1,321,013) |
| Balance, December 31, 2018 | 80,436,970 | 18,934,573 | 3,297,163 | (20,550,102) | 1,681,634 |
| Adjustment on adoption of IFRS 16 (Note 3) | - | - | - | 1,676 | 1,676 |
| Warrant exercised | 1,000 | 220 | - | - | 220 |
| Issuance of convertible debt | - | 196,229 | 105,662 | - | 301,891 |
| Share issue costs | - | - | 116,973 | - | 116,973 |
| Share based payments | - | - | 120,956 | - | 120,956 |
| Net loss for the period | - | - | - | (1,408,218) | (1,408,218) |
| Balance, June 30, 2019 | 80,437,970 | 19,131,022 | 3,640,754 | (21,956,644) | 815,132 |

*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*

| | Six Months Ended June 30, 2019 $ | Six Months Ended June 30, 2018 $ |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss | (1,408,218) | (1,482,727) |
| Add items not affecting cash: | | |
| Depreciation of property and equipment | 10,005 | 8,402 |
| Depreciation of intangible assets | 84,794 | 84,795 |
| Depreciation of right of use asset | 59,878 | - |
| Convertible debt accretion expense | 29,767 | - |
| Interest expense | 24,971 | - |
| Share-based payments | 120,956 | 140,322 |
| Shares issued for services | - | 62,861 |
| | (1,077,847) | (1,186,347) |
| Changes in non-cash working capital items relating to operations: | | |
| Amounts receivable | 298,145 | 8,385 |
| Inventory | 7,264 | - |
| Prepaid expenses and deposit | 26,888 | (18,309) |
| Accounts payable and accrued liabilities | (11,365) | 202,796 |
| Cash used in operating activities | (756,915) | (993,475) |
| | | |
| INVESTING ACTIVITY | | |
| Purchase of property and equipment | - | (5,249) |
| Cash used in investing activities | - | (5,249) |
| | | |
| FINANCING ACTIVITY | | |
| Issuance of common shares, net of issuance costs | 220 | 284,730 |
| Issuance of convertible debt, net of issuance costs | 1,914,187 | - |
| Payment of lease obligation | (69,920) | - |
| Cash provided by financing activity | 1,844,487 | 284,730 |
| | | |
| Increase (decrease) in cash and cash equivalents | 1,087,572 | (713,994) |
| | | |
| Cash and cash equivalents, beginning | 369,892 | 1,164,518 |
| Cash and cash equivalents, ending | 1,457,464 | 450,524 |

*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 Toronto Stock Exchange (the "Exchange") under the symbol "AQS". The Company is a specialty pharmaceutical company, with a focus on improving drug delivery for existing medications and commercializing value-add products in specialty therapeutic areas in the Canadian market. Aequus has a portfolio of internally developed clinical stage reformulated products, as well as 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, 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 Company has incurred losses and negative operating cash flows since its inception. As of June 30, 2019, the Company has accumulated a deficit of $21,956,644. The Company will require further financing to meet its financial obligations and sustain its operations in the normal course of the business. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to meet its long-term business strategy depends on its ability to obtain additional equity financing and to generate operational cash flow from commercial services revenue.

## 2. BASIS OF PRESENTATION //

### [a] Statement of compliance

These consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting." They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited financial statements for the fiscal year ended December 31, 2018, which have been prepared with International Financial Reporting Standards ("IFRS"). These consolidated financial statements were approved by the Company's Audit Committee on August 26, 2019.

### [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.

## 2. BASIS OF PRESENTATION (CONTINUED)

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

#### *CRITICAL JUDGMENTS*

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

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

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

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

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

#### *ESTIMATION UNCERTAINTY*

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

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

## 2. BASIS OF PRESENTATION (CONTINUED)

### [d] Significant accounting estimates and judgments (continued)

*ESTIMATION UNCERTAINTY (CONTINUED)*

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

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

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

### [e] Reclassification of prior year figures

Condensed consolidated interim financial statements of the Company have been prepared comparatively with the prior period in order to give more meaningful trend analysis regarding financial position and performance. In order to maintain consistency with current year condensed consolidated interim financial statements, comparative information is reclassified for function of expenses.

## 3. SIGNIFICANT ACCOUNTING POLICIES //

These condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statement for the fiscal year ended December 31, 2018, with the exception of the following:

### Adoption of new standards - Leases

The Company adopted the requirements of IFRS 16 effective January 1, 2019. This new standard replaces IAS 17 Leases and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current accounting for finance leases, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is substantially changed.

*For the six months ended June 30, 2019 and 2018 (Unaudited - Expressed in Canadian dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

Measurement and recognition of leases as a lessee

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

For the six months ended June 30, 2019 and 2018 (Unaudited - Expressed in Canadian dollars)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement and recognition of leases as a lessee (continued)

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

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

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

## 4. CASH AND CASH EQUIVALENTS //

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | $ | $ |
| Cash | 153,090 | 169,243 |
| Short-term investment | 1,304,374 | 200,649 |
| | 1,457,464 | 369,892 |

At June 30, 2019, the Company has a variable rate investment of $1,300,000 (December 31, 2018 - $200,000), the instrument is redeemable for cash at any time yields an interest rate of 2%, with a maturity date of May 5, 2020. During six months ended June 30, 2019, the Company recognized interest income of $5,373 (June 30, 2018 - $2,454).

## 5. PREPAID EXPENSES AND DEPOSIT //

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | $ | $ |
| Deposit on leased premises (note 3) | - | 42,877 |
| Prepaid expenses | 51,571 | 78,459 |
| | 51,571 | 121,336 |

For the six months ended June 30, 2019 and 2018 (Unaudited - Expressed in Canadian dollars)

## 6. PROPERTY AND EQUIPMENT //

| | Office Furniture and Equipment $ | Computer Equipment $ | Website Costs $ | Leasehold Improvement $ | Total $ |
|---|---|---|---|---|---|
| Cost: | | | | | |
| Balance, December 31, 2017 | 10,553 | 1,609 | 42,235 | 4,211 | 58,608 |
| Addition | - | 11,364 | - | - | 11,364 |
| Balance, December 31, 2018 | 10,553 | 12,973 | 42,235 | 4,211 | 69,972 |
| Addition | - | - | - | - | - |
| Balance, June 30, 2019 | 10,553 | 12,973 | 42,235 | 4,211 | 69,972 |
| | | | | | |
| Accumulated depreciation: | | | | | |
| Balance, December 31, 2017 | 5,076 | 268 | 14,078 | 4,211 | 23,633 |
| Depreciation | 1,876 | 2,250 | 14,078 | - | 18,204 |
| Balance, December 31, 2018 | 6,952 | 2,518 | 28,156 | 4,211 | 41,837 |
| Depreciation | 938 | 2,028 | 7,039 | - | 10,005 |
| Balance, June 30, 2019 | 7,890 | 4,546 | 35,195 | 4,211 | 51,842 |
| | | | | | |
| Net book value: | | | | | |
| As of December 31, 2018 | 3,601 | 10,455 | 14,079 | - | 28,135 |
| As of June 30, 2019 | 2,663 | 8,427 | 7,040 | - | 18,130 |

For the six months ended June 30, 2019 and 2018 (Unaudited - Expressed in Canadian dollars)

## 7. INTANGIBLE ASSETS //

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

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

[b] Pursuant to the terms of the Supernus Agreement, and in addition to the upfront payment of $478,940 (US$350,000), the Company is further obligated to pay an aggregate of US$3.6 million in milestone payments upon the achievement of specified regulatory milestones, mid-teen royalty on net sales of Topiramate XR, US$1.5 million on net sales of Oxcarbazepine XR, as well as a milestone payment of US$1.5 million linked to achievement of specified cumulative net sales from both Topiramate XR and Oxcarbazepine XR. The Company is responsible for the regulatory submission and commercial activities for both products in Canada. The term of the Supernus Agreement will continue as long as the Topiramate XR and Oxcarbazepine XR products are sold in Canada.

| | TeOra Assets $ | Supernus Licensing Fee $ | Total $ |
|---|---|---|---|
| Cost: | | | |
| Balance, December 31, 2017 & 2018 & June 30, 2019 | 847,945 | 478,940 | 1,326,885 |
| Accumulated amortization: | | | |
| Balance, December 31, 2017 | 423,972 | - | 423,972 |
| Amortization of intangible assets | 169,589 | - | 169,589 |
| Balance, December 31, 2018 | 593,561 | - | 593,561 |
| Amortization of intangible assets | 84,794 | - | 84,794 |
| Balance, June 30, 2019 | 678,355 | - | 678,355 |
| Net book value: | | | |
| As of December 31, 2018 | 254,384 | 478,940 | 733,324 |
| As of June 30, 2019 | 169,590 | 478,940 | 648,530 |

For the six months ended June 30, 2019 and 2018 (Unaudited - Expressed in Canadian dollars)

## 8. RIGHT OF USE LEASE ASSET //

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

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

| Cost: | $ |
|---|---|
| Balance at January 1, 2019, on adoption of IFRS 16 | 588,806 |
| | |
| Accumulated amortization: | |
| Balance at January 1, 2019, on adoption of IFRS 16 | - |
| Depreciation for the period | 59,878 |
| Balance, June 30, 2019 | 59,878 |
| | |
| Net book value: | |
| As at January 1, 2019, on adoption of IFRS 16 | 588,806 |
| As of June 30, 2019 | 528,928 |

## 9. LEASE LIABILITY //

| | $ |
|---|---|
| Balance at January 1, 2019, on adoption of IFRS 16 | 544,256 |
| Interest expense | 24,971 |
| Lease payments | (69,920) |
| Balance, June 30, 2019 | 499,307 |
| | |
| Which consist of: | |
| Current lease liability | 141,680 |
| Non-current lease liability | 357,627 |
| | 499,307 |

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 basic rent commitment 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.

## 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 Convertible Debenture Unit and warrants will begin trading on the Exchange on May 6, 2019.

The fair value of the liability component of the convertible debt using an imputed interest rate of 15%. The fair value of the liability component was determined to be $2,046,109, with the residual amount of $301,891 being allocated to equity. The Company allocated $105,662 of the equity portion to contributed surplus related to the detachable warrants. The detachable warrants were valued using the Black-Scholes Option Pricing Model under the following assumptions: a risk-free interest rate of 1.61%, estimated annualized volatility of 90.35%, an expected life of 3 years, nil dividend yield, $0.22 exercise price and a $0.185 share price.

In relation to the financing, the Company paid $164,360 in cash commission, $269,453 in other financing fees and issued 1,173,842 broker warrants. Each broker warrant is exercisable into one common share at $0.22 until May 2, 2022. The Company recognized $116,973 as share issue cost related to the broker warrants which were valued using the Black-Scholes Option Pricing Model under the following assumptions: a risk-free interest rate of 1.6%, annualized volatility of 90%, an expected life of 3 years, nil dividend yield, $0.22 exercise price and a $0.185 share price. The total costs associated with issuing the convertible debt totaled $550,786 and was allocated to the liability component of the convertible debt.

During the six months ended June 30, 2019, the Company recorded $35,948 of interest expense in accounts payable and $29,767 in accretion expense related to the convertible debt.

*For the six months ended June 30, 2019 and 2018 (Unaudited - Expressed in Canadian dollars)*

## 11. RELATED PARTY DISCLOSURE //

### [a] Transactions with related parties

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

| | Three Months Ended June 30, 2019 | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Management [i] [ii] [iii] [v] | 157,001 | 152,502 | 296,490 | 286,546 |
| Consulting [iv] | 1,149 | 15,798 | 7,321 | 37,561 |
| | 158,150 | 168,300 | 303,811 | 324,107 |

[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. NVI is compensated at a monthly rate of $15,000. During the six months ended June 30, 2019, NVI received $90,000 (June 30, 2018 - $90,000) in compensation.

[ii] Ms. Stevens was compensated at a monthly rate of $12,500 from October 1, 2017 to August 31, 2018 and then $10,449 thereafter. During the six months ended June 30, 2019, Ms. Stevens received $62,696 (June 30, 2018 - $75,000) in salary.

[iii] The Company entered into a consulting service agreement with Mr. Ian Ball who serves as the Chief Commercial Officer of the Company. Pursuant to this consulting agreement with a term to July 31, 2019, Mr. Ball is compensated at a monthly rate of $12,000. During the six months ended June 30, 2019, Mr. Ball charged total consulting fees of $72,000 (June 30, 2018 - $72,000).

As of June 30, 2019, the Company has included in its accounts payable and accrued liabilities of $12,471 (December 31, 2018 - $12,459) due to Mr. Ball.

[iv] The Company entered into a consulting service agreement with Dr. Donald McAfee, the Acting Chief Scientific Officer of the Company. Pursuant to the Consulting Agreement, Dr. McAfee was compensated at a daily rate of US$1,000. During the six months ended June 30, 2019, Dr. McAfee charged total consulting fees of $7,321 (June 30, 2018 - $37,561).

As of June 30, 2019, the Company has included in its accounts payable and accrued liabilities of nil (December 31, 2018 - $3,922) due to Dr. McAfee.

[v] The Company entered into a consulting service agreement with Fehr & Associates and Ann Fehr, the Chief Financial Officer of the Company. Pursuant to this consulting agreement, Mrs. Fehr is compensated at a rate of $1,000 per month plus $120 per hour. During the six months ended June 30, 2019, Fehr & Associates charged total consulting fees of $71,793 (June 30, 2018 - $49,546) for CFO and outsourced accounting services.

As of June 30, 2019, the Company has included in its accounts payable and accrued liabilities $11,220 (December 31, 2018 - $26,124) due to Fehr & Associates.

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

*For the six months ended June 30, 2019 and 2018 (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 June 30, 2019 $ | Three Months Ended June 30, 2018 $ | Six Months Ended June 30, 2019 $ | Six Months Ended June 30, 2018 $ |
|---|---|---|---|---|
| Management & wages, General administration | 114,514 | 108,477 | 211,516 | 198,496 |
| Management & wages, Research and development | 19,087 | 20,625 | 38,174 | 41,250 |
| Management & wages, Sales and marketing | 23,400 | 23,400 | 46,800 | 46,800 |
| Consulting, Research and development | 1,149 | 15,798 | 7,321 | 37,561 |
| Share-based payments, General administration | 8,435 | 17,470 | 17,677 | 35,487 |
| Share-based payments, Research and development | 5,769 | 13,177 | 11,913 | 26,866 |
| Share-based payments, Sales and marketing | 1,782 | 6,935 | 4,076 | 15,019 |
| | 174,136 | 205,882 | 337,478 | 401,479 |

### [c] Other

The Company entered into two separate month to month sublease agreements with Northview Lifesciences and Fehr & Associates for recovery of rent expense. During the six months ended June 30, 2019, the Company received $3,690 and $26,250 (June 30, 2018 - $3,000 and $18,900), 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 June 30, 2019, and December 31, 2018, there were no preferred shares issued and outstanding.

### [b] Common shares

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

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

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

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

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

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

[v] During the six months ended June 30, 2019, 1,000 warrants were exercised at $0.22 and the Company issued 1,000 common shares for proceeds of $220.

For the six months ended June 30, 2019 and 2018 (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, 2017 | 8,625,000 | 0.45 |
| Issued | 4,937,500 | 0.34 |
| Balance, December 31, 2018 | 13,562,500 | 0.41 |
| Issued | 5,588,240 | 0.22 |
| Expired | (8,625,000) | (0.45) |
| Exercised | (1,000) | (0.22) |
| Balance, June 30, 2019 | 10,524,740 | 0.28 |

| Date of Expiry | Exercise Price $ | Number of Options Outstanding |
|---|---|---|
| January 31, 2020 | 0.50 | 1,000,000 |
| August 9, 2020 | 0.30 | 3,937,500 |
| May 2, 2022 | 0.22 | 5,587,240 |
| | | 10,524,740 |

The remaining life of the common share purchase warrants at June 30, 2019 is 1.98 years (December 31, 2018 – 0.44 years).

### [d] Agents' warrants and brokers' warrants

| | Number | Weighted Average Exercise Price $ |
|---|---|---|
| Balance, December 31, 2017 | 862,500 | 0.30 |
| Issued | 166,250 | 0.30 |
| Balance, December 31, 2018 | 1,028,750 | 0.30 |
| Issued | 1,173,842 | 0.22 |
| Expired | (862,500) | (0.30) |
| Balance, June 30, 2019 | 1,340,092 | 0.23 |

| Date of Expiry | Exercise Price $ | Number of Options Outstanding |
|---|---|---|
| August 9, 2020 | 0.30 | 166,250 |
| May 2, 2022 | 0.22 | 1,173,842 |
| | | 1,340,092 |

The remaining life of the agents' warrants at June 30, 2019 is 2.63 years (December 31, 2018 - 0.44 years).

*For the six months ended June 30, 2019 and 2018 (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, and June 12, 2017, 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 12,000,000 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 six months ended June 30, 2019, the Company recorded share-based payments of $120,956 (2018 - $123,327) related to stock options which vested in the period.

The fair values of 700,000 stock options granted during the six months ended June 30, 2019 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

| | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|
| Risk-free interest rate | 1.91% | 2.30% |
| Estimated annualized volatility based on comparable companies | 91.24% | 95.57% |
| Expected life | 8 years | 8 years |
| Expected dividend yield | 0% | 0% |
| Exercise price | $0.18 | $0.25 |

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

| | Number | Weighted Average Exercise Price $ |
|---|---|---|
| Balance, December 31, 2017 | 8,078,278 | 0.32 |
| Forfeited | (360,000) | (0.55) |
| Expired | (900,000) | (0.29) |
| Granted | 1,180,000 | 0.19 |
| Balance, December 31, 2018 | 7,998,278 | 0.30 |
| Granted | 700,000 | 0.19 |
| Balance, June 30, 2019 | 8,698,278 | 0.29 |

For the six months ended June 30, 2019 and 2018 (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 |
|---|---|---|---|
| November 1, 2019 | $0.16 | 600,000 | 600,000 |
| May 31, 2020 | $0.25 | 1,124,337 | 1,124,337 |
| December 12, 2021 | $0.35 | 565,000 | 565,000 |
| December 18, 2022 | $0.55 | 350,000 | 350,000 |
| March 6, 2023 | $0.55 | 350,000 | 350,000 |
| July 9, 2023 | $0.57 | 300,000 | 300,000 |
| September 30, 2023 | $0.55 | 186,000 | 186,000 |
| April 21, 2024 | $0.47 | 900,000 | 900,000 |
| July 22, 2024 | $0.35 | 150,000 | 112,500 |
| December 6, 2025 | $0.20 | 2,292,941 | 1,146,471 |
| April 16, 2026 | $0.25 | 30,000 | 15,000 |
| July 23, 2026 | $0.20 | 350,000 | 175,000 |
| November 6, 2026 | $0.18 | 800,000 | 400,000 |
| February 1, 2027 | $0.18 | 700,000 | 150,000 |
| | $0.29 | 8,698,278 | 6,374,308 |

As of June 30, 2019, the weighted average remaining life for outstanding options was 4.70 years (December 31, 2018 – 4.25 years).

## 13. COMMITMENTS AND CONTINGENCIES //

### [a] 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 of US$3.6 million in milestone payments upon the achievement of specified regulatory milestones, mid-teen royalty on net sales of Topiramate XR, US$1.5 million on net sales of Oxcarbazepine XR, as well as a milestone payment of US$1.5 million linked to achievement of specified cumulative net sales from both Topiramate XR and Oxcarbazepine XR. The Company is responsible for the regulatory submission and commercial activities for both products in Canada. The term of the Supernus Agreement will continue as long as the Topiramate XR and Oxcarbazepine XR products are sold in Canada.

### [b] Contingencies

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

As of June 30, 2019, and December 31, 2018, the Company had not made any indemnification payments under such agreements and no amount had been accrued in the condensed consolidated interim financial statements with respect to these indemnification obligations.

*For the six months ended June 30, 2019 and 2018 (Unaudited - Expressed in Canadian dollars)*

## 14. OPERATING EXPENSES //

### [a] Research and development expenses

| | Three Months Ended June 30, 2019 | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Consulting *[note 11]* | 1,149 | 95,864 | 27,079 | 206,852 |
| Patent and intellectual property protection | 13,961 | 8,335 | 18,729 | 35,299 |
| Management, wages, and related *[note 11]* | 21,587 | 29,339 | 43,174 | 52,971 |
| Share-based payments *[note 11]* | 15,725 | 23,283 | 31,601 | 47,078 |
| Subcontract research costs and development costs *[note 11]* | - | 8,297 | - | 8,297 |
| Travel and accommodation | 71 | 14,845 | 988 | 22,433 |
| | 52,493 | 179,963 | 121,571 | 372,930 |

### [b] Sales and marketing expenses

| | Three Months Ended June 30, 2019 | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Advertising and promotion | 15,517 | 38,213 | 46,575 | 43,913 |
| Consulting | - | 1,800 | - | 5,400 |
| Depreciation and amortization *[note 6 and 7]* | 47,400 | 48,107 | 94,800 | 94,559 |
| Printing and other expenses | 4,930 | 1,003 | 6,917 | 1,849 |
| Management, wages, and related *[note 11]* | 23,400 | 23,400 | 46,800 | 46,800 |
| Salesforce | 248,738 | 201,257 | 530,898 | 392,805 |
| Share-based payments *[note 11]* | 15,362 | 11,767 | 49,481 | 22,478 |
| Travel and accommodation | 95,838 | 38,299 | 184,810 | 95,024 |
| | 451,185 | 363,846 | 960,281 | 702,828 |

### [c] General administration expenses

| | Three Months Ended June 30, 2019 | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Consulting | 146,125 | 10,869 | 246,079 | 317,351 |
| Legal and professional fees | 31,634 | 58,994 | 70,046 | 86,588 |
| Other general administration expenses | 76,718 | 96,037 | 164,324 | 164,102 |
| Interest expenses | 48,167 | - | 60,918 | - |
| Accretion expense | 29,767 | - | 29,767 | - |
| Regulatory and transfer agent fees | 15,310 | 24,169 | 38,654 | 44,910 |
| Management, wages, and related *[note 11]* | 175,253 | 195,283 | 322,673 | 358,746 |
| Share-based payments *[note 11]* | 19,037 | 34,280 | 39,873 | 70,766 |
| Travel and accommodation | 33,830 | 83,339 | 86,038 | 119,343 |
| | 575,841 | 502,971 | 1,058,372 | 1,161,806 |

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT //

### Fair value

The fair value of the Company's financial instruments is approximated by their carrying value due to their short-term nature.

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

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

The fair value of cash and cash equivalents is based on Level 1 inputs.

### [a] Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises for the Company from its cash and cash equivalents and amounts receivable. The Company has adopted practices to mitigate against the deterioration of principal, to enhance the Company's ability to meet its liquidity needs, and to optimize yields within those parameters. These investment practices limit the investing of excess funds to liquid term deposits or cashable guaranteed investments ("GIC") with banks, and government guaranteed securities with maturities of one year or less. The Company have cashable GIC at June 30, 2019 of $1,300,000 (December 31, 2018 - $200,000). Amounts receivable consists of service fees owed from a collaborative partner.

### [b] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. As of June 30, 2019, the Company had working capital of $1,502,261 (December 31, 2018 - $920,175).

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### [c] Market risk

[i] Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. During the six months ended June 30, 2019 and the year ended December 31, 2018, fluctuations in the market interest rates 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 U.S. dollars. The Company has not entered into foreign exchange derivative contracts. A significant change in the currency exchange rate between the Canadian dollars relative to the U.S. dollars could have an effect on the Company's results of operations, financial position or cash flows.

As at June 30, 2019 and December 31, 2018, the Company had the following assets and liabilities denominated in U.S. dollars:

| | June 30, 2019 US$ | December 31, 2018 US$ |
|---|---|---|
| Cash and cash equivalents | 1,163 | 20 |
| Accounts payable and accrued liabilities | (14,223) | (17,537) |
| Total | (13,060) | (17,517) |

Based on the above net exposure as at June 30, 2019, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of $653 (December 31, 2018 - $876) in the Company's net loss. Furthermore, the company incurred $51,096 USD expenditures during the six months ended June 30, 2019 (2018 - $156,467 USD). A 5% appreciation or deterioration of the Canadian dollar against the U.S dollar would result in a change of $2,555 (2018 - $7,823).