AEQUUS PHARMACEUTICALS INC.

// CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

// INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Aequus Pharmaceuticals Inc.

Opinion

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

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has incurred losses and negative operating cash flows since inception and the Company's ability to continue its operations is dependent on its ability to raise additional equity financing and to generate operational cash flow from commercial services revenue.

As stated in Note 1 in the consolidated financial statements, these events and conditions, along with other matters as set forth in Note 1 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on April 27, 2018.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

DMCL

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

April 24, 2019

// CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian dollars

	Note	December 31, 2018 $	December 31, 2017 $
ASSETS			
Current			
Cash and cash equivalents	5	369,892	1,164,518
Inventory		12,693	-
Amounts receivable		731,151	430,064
Prepaid expenses and deposit	6	121,336	139,379
		1,235,072	1,733,961
Property and equipment	7	28,135	34,975
Intangible assets	8	733,324	902,913
		761,459	937,888
Total assets		1,996,531	2,671,849
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable	9	268,652	336,176
Accrued liabilities		46,245	30,660
Total liabilities		314,897	366,836
SHAREHOLDERS' EQUITY			
Share capital	10	18,934,573	17,095,063
Contributed surplus		3,297,163	2,956,312
Deficit		(20,550,102)	(17,746,362)
Total shareholders' equity		1,681,634	2,305,013
Total liabilities and shareholders' equity		1,996,531	2,671,849

Nature of Operations and Going Concern [Note 1]
Commitments and Contingencies [Note 11]
Subsequent event [Notes 10[c], 10[d] and 10[e]]

These consolidated financial statements were approved for issue by the Board of Directors on April 24, 2019 and signed on its behalf by:

/s/ Douglas G. Janzen	/s/ Christopher Clark
Director	Director

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

// CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Expressed in Canadian dollars

	Note	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
Revenue		1,410,240	1,139,424
Expenses			
Research and development	12	526,935	1,414,706
Sales and marketing	12	1,646,076	1,386,676
General administration	12	2,045,258	2,340,500
		4,218,269	5,141,882
Loss before other income (loss)		(2,808,029)	(4,002,458)
Other income (loss)			
Interest income		5,312	12,295
Government grant		-	89,927
Foreign exchange gain (loss)		(1,023)	17,809
		4,289	120,031
Net loss and comprehensive loss		(2,803,740)	(3,882,427)
Basic and diluted loss per common share		(0.04)	(0.06)
Weighted average number of common shares outstanding – basic and diluted		75,641,511	67,897,222

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

// CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Expressed in Canadian dollars

	Common Shares		Contributed Surplus	Deficit	Total
	Number	$	$	$	$
Balance, December 31, 2016	54,151,021	12,606,882	2,522,737	(13,863,935)	1,265,684
Issued for cash pursuant to a bought deal financing	17,250,000	4,422,731	129,364	-	4,552,095
Shares cancelled pursuant to escrow agreement	(336,000)	-	-	-	-
Shares issued for services	286,117	65,450	-	-	65,450
Share-based payments	-	-	304,211	-	304,211
Net loss	-	-	-	(3,882,427)	(3,882,427)
Balance, December 31, 2017	71,351,138	17,095,063	2,956,312	(17,746,362)	2,305,013
Shares issued for cash pursuant to financing	8,875,000	1,875,000	-	-	1,875,000
Share issue costs	-	(98,351)	13,799	-	(84,552)
Shares issued for services	210,832	62,861	-	-	62,861
Share based payments	-	-	327,052	-	327,052
Net loss	-	-	-	(2,803,740)	(2,803,740)
Balance, December 31, 2018	80,436,970	18,934,573	3,297,163	(20,550,102)	1,681,634

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

// CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
OPERATING ACTIVITIES		
Net loss	(2,803,740)	(3,882,427)
Add items not affecting cash:		
Depreciation of property and equipment	18,204	17,631
Depreciation of intangible assets	169,589	169,589
Share-based payments	346,030	373,315
Shares issued for services	62,861	65,450
	(2,207,056)	(3,256,442)
Changes in non-cash working capital items relating to operations:		
Amounts receivable	(301,087)	(239,950)
Inventory	(12,693)	-
Prepaid expenses and deposit	(935)	19,796
Accounts payable and accrued liabilities	(51,939)	(335,340)
Cash used in operating activities	(2,573,710)	(3,811,936)
INVESTING ACTIVITIES		
Purchase of property and equipment	(11,364)	(48,883)
Cash used in investing activities	(11,364)	(48,883)
FINANCING ACTIVITY		
Issuance of common shares, net of issuance costs	1,790,448	4,552,095
Cash provided by financing activity	1,790,448	4,552,095
Increase (Decrease) in cash and cash equivalents	(794,626)	691,276
Cash and cash equivalents, beginning	1,164,518	473,242
Cash and cash equivalents, ending	369,892	1,164,518
Non-cash transactions:		
Fair value of brokers' warrants	13,799	129,364
Fair value of securities issued for services	(62,861)	(65,450)

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

1. NATURE OF OPERATIONS AND GOING CONCERN //

Aequus Pharmaceuticals Inc. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on January 3, 2013 and is a public company listed on the 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 consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown, and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The Company has incurred losses and negative operating cash flows since its inception. As of December 31, 2018, the Company has accumulated a deficit of $20,550,102 (December 31, 2017 - $17,746,362). The Company will require further financing to meet its financial obligations and sustain its operations in the normal course of the business. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to meet its long-term business strategy depends on its ability to obtain additional equity financing and to generate operational cash flow from commercial services revenue.

2. BASIS OF PRESENTATION //

[a] Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") an interpretation issued by the International Reporting Interpretation Committee ("IFRIC") effective for the year ended December 31, 2018. These consolidated financial statements were approved by the Company's Board of Directors on April 24, 2019.

[b] Basis of measurement

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

[c] Functional and foreign currency

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

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments

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

The Company reviews its estimates and underlying assumptions on an ongoing basis.

CRITICAL JUDGMENTS

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

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

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

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

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

ESTIMATION UNCERTAINTY

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

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

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

ESTIMATION UNCERTAINTY (CONTINUED)

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

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

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

[e] Reclassification of prior year figures

Consolidated 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 consolidated financial statements, comparative information is reclassified for function of expenses.

3. SIGNIFICANT ACCOUNTING POLICIES //

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

[a] Changes in Accounting Policies - Revenue from Contracts with Customers

The Company adopted the requirements of IFRS 15 effective January 1, 2018. This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 Construction Contracts, IAS 18 Revenue, and SIC-31 Revenue — Barter Transactions Involving Advertising Services.

The main features introduced by this new standard compared with predecessor IFRSs are as follows:

Revenue is recognized based on a five-step model:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[a] Changes in Accounting Policies - Revenue from Contracts with Customers (continued)

New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The adoption of IFRS 15 resulted in no impact to the Company's recognition of revenue.

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

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

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

[b] Changes in Accounting Policies - Financial instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") effective January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

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

(i) Classification

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[b] Changes in Accounting Policies - Financial instruments (continued)

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

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

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

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

(ii) Measurement

Financial assets and liabilities at amortized cost:

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

Financial assets and liabilities at FVTPL:

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

(iii) Impairment of financial assets at amortized cost.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[b] Changes in Accounting Policies - Financial instruments (continued)

(iv) Derecognition

Financial assets

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

[c] Consolidation

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

[d] Cash and cash equivalents

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

[e] Property and equipment

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

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

[f] Intangible assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[g] Impairment of assets

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

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

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

[h] Research and development costs

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

[i] Share-based payments

The Company grants stock options to directors, officers and consultants pursuant to a stock option plan described in *note 10[e].* The Company uses the fair value method to account for all share-based awards granted, modified or settled, and the Black-Scholes Option Pricing Model to determine the fair value of stock options granted. As such, a share-based payment is recorded based on the estimated fair value of options with a corresponding credit to contributed surplus. Any consideration received plus the amounts recognized in contributed surplus will be transferred to share capital on the exercise of stock options. The amounts remain in contributed surplus for stock options which expire unexercised. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of share options that will eventually vest are accounted for prospectively. Options issued to non-employees are valued based on the fair value of the options issued as the fair value of the services provided cannot be measured reliably.

[j] Income taxes

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[j] Income taxes (continued)

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

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

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

[k] Investment tax credit

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

[l] Government assistances

Government assistances consist of grants received under the Industrial Research Assistance Program (“IRAP”) and refundable scientific research and experimental development tax credits (“SR&ED”). Government assistances are recorded in net income or loss upon cash receipt and when reasonable assurance exists that the Company has complied with the terms and conditions of the IRAP program.

[m] Loss per common share

Basic loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per common share is equivalent to the basic loss per common share as the effects of outstanding warrants and options disclosed in Note 10 are anti-dilutive for all periods presented.

[n] Equity and share capital

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

For the years ended December 31, 2018 and 2017 (Expressed in Canadian dollars)

3. RECENT ACCOUNTING PRONOUNCEMENTS //

New Standards Not Yet Effective

The following is an overview of new accounting standards that the Company will be required to adopt in future years.

- New standard IFRS 16 Leases
  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 will be substantially changed. The standard is effective for the annual period beginning on January 1, 2019. The Company intends to transition to the new standard using the modified retrospective approach and measure the lease liability based on the present value of the remaining lease payments and the cumulative difference to deficit. The Company has evaluated the impact of this new guidance on its consolidated financial statements and has estimated that the adoption of the new standard will result in the recognition of additional right of use assets related to its leased premises of approximately $624,000 and lease liabilities of approximately $569,000.

4. CASH AND CASH EQUIVALENTS //

	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
Cash	169,243	314,518
Short-term investment	200,649	850,000
	369,892	1,164,518

At December 31, 2018, the Company has a variable rate investment of $200,000 (2017 - $850,000), the instrument is redeemable for cash at any time yields an interest rate of 2.60%, with a maturity date of February 28, 2019. During the year ended December 31, 2018, the Company recognized interest income of $5,312 (December 31, 2017 - $12,295). Subsequent to December 31, 2018, the Company redeemed the investment in full.

5. PREPAID EXPENSES AND DEPOSIT //

	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
Deposit on leased premises	42,877	62,192
Prepaid expenses	78,459	58,209
Deferred share-based payments	-	18,978
	121,336	139,379

For the years ended December 31, 2018 and 2017 (Expressed in Canadian dollars)

6. PROPERTY AND EQUIPMENT //

	Office Furniture and Equipment $	Computer Equipment $	Website Costs $	Leasehold Improvement $	Total $
Cost:					
Balance, December 31, 2016	5,514	-	42,235	4,211	51,960
Addition	5,039	1,609	-	-	6,648
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
Accumulated depreciation:					
Balance, December 31, 2016	3,336	-	-	2,666	6,002
Depreciation	1,740	268	14,078	1,545	17,631
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
Net book value:					
As of December 31, 2017	5,477	1,341	28,157	-	34,975
As of December 31, 2018	3,601	10,455	14,079	-	28,135

For the years ended December 31, 2018 and 2017 (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 *[Note 10[b]]*.

During the year ended December 31, 2018, the Company extended the term for its promotional service agreement related to Vistitan. Under the original agreement, the revenues were split based upon an agreed tiered structure over the five year term. With this amendment, revenue splits as of January 1, 2019 will increase from the originally agreed to tiering schedule by an additional 7% of net product sales and up to an additional 12% if certain milestones are met. The term has been extended to June 2021, with an option for renewal upon mutual agreement.

[b] On February 12, 2016, the Company entered into a licensing agreement with Supernus Pharmaceuticals, Inc. for Canadian commercial rights to Topiramate XR and Oxcarbazepine XR, two branded products for the treatment of epilepsy (the "Supernus Agreement"). Pursuant to the terms of the Supernus Agreement, the Company paid $478,940 (US$350,000) and is further obligated to pay additional licensing milestone fees of US$5,150,000, a mid-teen royalty fee on sales and a final sales milestone payment as described in *Note 11[b]*. Amortization of licensing fees will be recognized following the receipt of regulatory approval from Health Canada and upon commencement of commercial activities of the underlying products.

	TeOra Assets $	Supernus Licensing Fee $	Total $
Cost:			
Balance, December 31, 2016 & 2017 & 2018	847,945	478,940	1,326,885
Accumulated amortization:			
Balance, December 31, 2016	254,383	-	254,383
Amortization of intangible assets	169,589	-	169,589
Balance, December 31, 2017	423,972	-	423,972
Amortization of intangible assets	169,589	-	169,589
Balance, December 31, 2018	593,561	-	593,561
Net book value:			
As of December 31, 2017	423,973	478,940	902,913
As of December 31, 2018	254,384	478,940	733,324

For the years ended December 31, 2018 and 2017 (Expressed in Canadian dollars)

8. RELATED PARTY DISCLOSURE //

[a] Transactions with related parties

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

	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
Subcontract research and licensing[i]	-	81,755
Management [ii] [iii] [iv] [vi]	562,356	597,914
Consulting [v]	55,413	77,550
	617,769	757,219

[i] During the year ended December 31, 2018, the Company incurred $nil (2017 - $81,755) in subcontract research expenses from Dr. Fotios Plakogiannis, a former director of the Company, and to Alpha to Omega Consultants Inc., a company controlled by Dr. Fotios Plakogiannis.

[ii] Effective December 1, 2016, the Company entered into a consulting agreement with Northview Ventures Inc. ("NVI") and Doug Janzen, the Chief Executive Officer of the Company. Northview Ventures Inc. was compensated at a monthly rate of $25,000 from December 1, 2016 to March 31, 2017 and then $15,000 per month thereafter. During the year ended December 31, 2018, NVI received $180,000 (2017 - $210,000) in compensation.

[iii] Effective December 1, 2016, the Company entered into a consulting agreement with Crecera Consulting Inc. ("Crecera") and Anne Stevens, the Chief Operating Officer of the Company. Crecera was compensated at a monthly rate of $12,000 from December 1, 2016 to March 31, 2017 and then $12,500 per month thereafter. Effective October 1, 2017 the contract with Crecera was terminated and Anne Stevens entered into an employment contract with the Company. During the year ended December 31, 2018, Crecera received $nil (2017 - $111,000) in compensation.

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 year ended December 31, 2018, Ms. Stevens received $141,798 (2017 - $37,500) in salaries.

[iv] 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 year ended December 31, 2018, Mr. Ball charged total consulting fees of $144,000 (2017 - $144,000).

As of December 31, 2018, the Company has included in its accounts payable and accrued liabilities $12,459 (2017 - $17,967) due to Mr. Ball.

For the years ended December 31, 2018 and 2017 (Expressed in Canadian dollars)

9. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

[v] The Company entered into a consulting service agreement with Dr. Donald McAfee, the Acting Chief Scientific Officer of the Company. Pursuant to the Consulting Agreement, Dr. McAfee was compensated at a daily rate of US$1,000. During the year ended December 31, 2018, Dr. McAfee charged total consulting fees of $55,413 (2017 - $77,550).

As of December 31, 2018, the Company has included in its accounts payable and accrued liabilities $3,922 (2017 - $3,764) due to Dr. McAfee.

[vi] 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 $100 per hour. During the year ended December 31, 2018, Fehr & Associates charged total consulting fees of $96,558 (2017 - $95,414) for CFO and outsourced accounting services.

As of December 31, 2018, the Company has included in its accounts payable and accrued liabilities $26,124 (2016 - $5,053) 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.

[b] Key management compensation

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

	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
Management, wages and related, General administration	388,306	414,689
Management, wages and related, Research and development	80,449	89,625
Management, wages and related, Sales and marketing	93,600	93,600
Consulting, Research and development	55,413	77,548
Share-based payments, General administration	114,456	89,922
Share-based payments, Research and development	51,322	38,288
Share-based payments, Sales and marketing	17,874	61,878
	801,422	865,550

[c] Other

During the year ended December 31, 2017, the Company entered into two separate sublease agreements with Northview Lifesciences and Fehr & Associates for recovery of rent expense. During the year ended December 31, 2018, the Company received $6,115 and $39,025 (2017 - $8,400 and $31,500), respectively.

For the years ended December 31, 2018 and 2017 (Expressed in Canadian dollars)

10. SHARE CAPITAL //

[a] Preferred shares

The authorized share capital of the Company consists of an unlimited number of Class A preferred shares without par value. As of December 31, 2018, and 2017, there were no preferred shares issued and outstanding.

[b] Common shares

Held in Escrow Accounts	Number of Shares
(i) Pursuant to listing requirements of the TSX Venture Exchange	
Balance, December 31, 2016	9,174,206
Release on March 17, 2017	(3,058,069)
Release on September 17, 2017	(3,058,069)
Balance, December 31, 2017	3,058,068
Release on March 17, 2018	(3,058,069)
	—
(ii) Pursuant to the terms of the TeOra Acquisition	
Balance, December 31, 2016	1,176,000
Release and cancellation for unmet performance milestone	(336,000)
Release on closing date anniversary of the TeOra acquisition	(420,000)
Balance, December 31, 2017	420,000
Release on closing date anniversary of the TeOra acquisition	(420,000)
	—
Balance, December 31, 2017	3,478,068
Balance, December 31, 2018	—

During the year ended December 31, 2018:

[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.

10. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

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

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

During the year ended December 31, 2017:

[vi] On March 13, 2017 the Company closed an agreement with Canaccord Genuity Corp. ("Canaccord") to which they agreed to purchase, on a bought deal basis, 17,250,000 units at a price of $0.30 per unit, for aggregate gross proceeds to the Company of $5,175,000. Each unit is comprised of one common share and one-half purchase warrant. Each whole warrant is exercisable to acquire one common share for a period of 2 years at an exercise price of $0.45 per share, subject to adjustment in certain events.

In the event the volume weighted average trading price of the Company's common shares on the TSX Venture Exchange is greater than $0.80 per common share for a period of 15 consecutive trading days, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof by way of press release and in such case the warrants will expire on the 30th day after such notice is given.

In connection to this financing, the Company paid $362,250 in commissions, $231,236 in legal and professional fees and $29,419 in filing fees. In addition, the Company issued 862,500 broker warrants in connection with the offering. Each broker warrant entitles the holder to acquire a unit at an exercise price of $0.30 per unit until March 13, 2019. The fair value of the brokers warrants as calculated using Black-Scholes Option Pricing Model as $129,364 with the following assumptions: 67.884% volatility, 0.80% risk free rate, 2 year expected life, 0% dividend, and $0.30 share price on issuance date.

[vii] Pursuant to the terms of the TeOra acquisition and the terms of the escrow agreement *[note 8[a]],* the Company cancelled 336,000 common shares on July 31, 2017 relating to an unachieved performance milestone.

[viii] During the year ended December 31, 2017, the Company issued 286,117 common shares with a fair value of $65,450, 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.

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10. 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, 2016	Nil	Nil
Issued	8,625,000	0.45
Balance, December 31, 2017	8,625,000	0.45
Issued	4,937,500	0.34
Balance, December 31, 2018	13,562,500	0.41

Date of Expiry	Exercise Price $	Number of Options Outstanding
March 13, 2019[(1)]	0.45	8,625,000
January 31, 2020	0.50	1,000,000
August 9, 2020	0.30	3,937,500
		13,562,500

(1) Subsequent to December 31, 2018, these warrants expired unexercised.

The remaining life of the share purchase warrants at December 31, 2018 is 0.44 years.

[d] Agents' warrants and broker's warrants

	Number	Weighted Average Exercise Price $
Balance, December 31, 2016	123,750	0.50
Expired	(123,750)	(0.50)
Issued pursuant to bought-deal financing	862,500	0.30
Balance, December 31, 2017	862,500	0.30
Issued pursuant to financing	166,250	0.30
Balance, December 31, 2018	1,028,750	0.30

Date of Expiry	Exercise Price $	Number of Options Outstanding
March 13, 2019[(1)]	0.30	862,500
August 9, 2020	0.30	166,250
		1,028,750

(1) Subsequent to December 31, 2018, these warrants expired unexercised.

The remaining life of the agents' warrants at December 31, 2018 is 0.44 years.

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10. 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 favour 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 favour 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 fiscal years ended December 31, 2018 and 2017, the Company recorded share-based payments of $327,052 and $304,211, respectively.

The fair values of stock options granted during the fiscal years ended December 31, 2018 and 2017 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2018	2017
Risk-free interest rate	2.20%	1.59%
Estimated annualized volatility based on comparable companies	95.57%	91.98%
Expected life	8 years	6.76 years
Expected dividend yield	0%	0%
Exercise price	$0.21	$0.19

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

	Number	Weighted Average Exercise Price $
Balance, December 31, 2016	5,225,337	0.40
Forfeited	(50,000)	(0.55)
Granted	2,902,941	0.19
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

Subsequent to December 31, 2018 the Company granted 700,000 to the sales force that have an exercise price of $0.18 per common share.

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10. 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	760,000
July 22, 2024	$0.35	150,000	112,500
December 6, 2025	$0.20	2,292,941	1,096,471
April 16, 2026	$0.25	30,000	7,500
July 23, 2026	$0.20	350,000	175,000
November 6, 2026	$0.18	800,000	400,000
	$0.32	7,998,278	6,026,808

As of December 31, 2018, the weighted average remaining life for outstanding options was 4.25 years.

11. COMMITMENTS AND CONTINGENCIES //

[a] Operating lease

During the year ended December 31, 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 starting December 1, 2018. 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. The Company has entered into sublease agreements of the space providing monthly rental revenue of $7,500 to offset rent expense

[b] Licensing agreement

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

For the years ended December 31, 2018 and 2017 (Expressed in Canadian dollars)

11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

[c] Contingencies

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

As of December 31, 2018, and 2017, the Company had not made any indemnification payments under such agreements and no amount had been accrued in the consolidated financial statements with respect to these indemnification obligations.

12. OPERATING EXPENSES //

[a] Research and development expenses

	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
Consulting *[note 9]*	243,628	295,258
Patent and intellectual property protection	89,728	88,234
Management, wages, and related *[note 9]*	96,784	98,568
Share-based payments *[note 9]*	73,672	28,054
Subcontract research costs and development costs *[note 9]*	8,297	894,874
Travel and accommodation	14,826	9,718
	526,935	1,414,706

[b] Sales and marketing expenses

	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
Advertising and promotion	117,672	25,825
Consulting	23,600	69,265
Depreciation and amortization *[notes 7 and 8]*	187,793	187,220
Printing and other expenses	16,524	54,697
Management. wages, and related *[note 9]*	93,600	93,600
Salesforce	840,507	736,243
Share-based payments *[note 9]*	108,046	69,218
Travel and accommodation	258,334	150,608
	1,646,076	1,386,676

For the years ended December 31, 2018 and 2017 (Expressed in Canadian dollars)

12. OPERATING EXPENSES (CONTINUED)

[c] General administration expenses

	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
Consulting	614,475	646,431
Legal and professional fees	168,122	241,398
Other general administration expenses	349,705	406,078
Regulatory and transfer agent fees	56,945	75,647
Management, wages, and related *[note 9]*	478,569	465,394
Share-based payments *[note 9]*	164,313	276,042
Travel and accommodation	213,129	229,510
	2,045,258	2,340,500

13. CAPITAL DISCLOSURES //

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. The Company has financed its capital requirements primarily through share and warrant issuances since inception.

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. There were no changes to the Company's approach to capital management during the year ended December 31, 2018.

14. 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.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[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 December 31, 2018 of $200,000 (2017 - $850,000). Amounts receivable consists of service fees owed from a collaborative partner.

[b] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. As of December 31, 2018, the Company had working capital of $920,175 (December 31, 2017 - $1,367,125).

[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 years ended December 31, 2018 and 2017, 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 December 31, 2018 and 2017, the Company had the following assets and liabilities denominated in U.S. dollars:

	December 31, 2018 US$	December 31, 2017 US$
Cash and cash equivalents	20	40
Accounts payable and accrued liabilities	(17,537)	(36,733)
Total	(17,517)	(36,693)

Based on the above net exposure as at December 31, 2018, 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 $876 (2017 - $1,835) in the Company's net loss. Furthermore, the company incurred $244,682 USD expenditures during the year ended December 31, 2018 (2017 - $958,454 USD). A 5% appreciation or deterioration of the Canadian dollar against the U.S dollar would result in a change of $12,234.

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15. INCOME TAXES //

At December 31, 2018, the Company has non-capital loss carryforwards available to offset future taxable income in Canada, which expires as follows:

Expiry Date	Non-Capital Losses $
December 31, 2032	615,012
December 31, 2033	1,853,110
December 31, 2034	613,893
December 31, 2035	2,705,562
December 31, 2036	3,962,805
December 31, 2037	2,308,827
December 31, 2038	2,365,644
	14,424,853

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

	December 31, 2018 $	December 31, 2017 $
Deferred income tax assets (liabilities):		
Property and equipment	-	6,911
Share issuance costs	182,429	266,439
Scientific research and experimental development expenditures	855,235	476,837
Non-capital loss carryforwards	3,856,381	3,540,893
Total deferred income tax assets	4,894,045	4,291,080
Deferred income tax not recognized	(4,894,045)	(4,291,080)
Net deferred tax asset	-	-

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

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

	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
Expected income tax recovery at statutory rates	(757,010)	(1,009,431)
Items not deductible for tax purposes	139,217	150,956
Effect of change in tax rates	-	(158,929)
Under/(over) provided in prior year	10,838	(7,023)
Benefits not recognized	606,955	1,024,427
Income tax expense	-	-