



Consolidated Financial Statements  
(Expressed in Canadian Dollars)

## **WAVERLEY PHARMA INC.**

Year ended December 31, 2020

# Independent auditor's report

To the Shareholders of  
**Waverley Pharma Inc.**

## Opinion

We have audited the consolidated financial statements of **Waverley Pharma Inc.** [the "Company"], which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of net loss and comprehensive loss, consolidated statement of changes in equity (deficit) and consolidated statement of 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 consolidated financial position of the Company as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRSs"].

## 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 consolidated 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

We draw attention to note 2(c) in the consolidated financial statements, which indicates that the Company incurred a net loss of \$705,763 during the year ended December 31, 2020 and, as of that date, the Company has a deficit of \$5,710,513 and that the Company is dependent on financing provided by external sources to continue as a going concern. As stated in note 2(c), these events or conditions, along with other matters set forth in note 2(c), indicate that a material uncertainty exists that may cast significant doubt in the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other matter

The consolidated financial statements of the Company for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on May 11, 2020.

## Other information

Other information consists of the information included in the Management's Discussion and Analysis, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do 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, and in doing so, consider whether the other information is materially inconsistent with the consolidated 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 in this auditor's report. 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 IFRSs, 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 Ashraf El-Bakri.

Winnipeg, Canada  
April 26, 2021

*Ernst & Young LLP*

Chartered Professional Accountants



**Waverley Pharma Inc.**  
**Consolidated Statements of Financial Position**  
**(expressed in Canadian dollars)**

<b>As at December 31</b>	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Assets</b>			
Current assets:			
Cash		\$ 710,492	\$ 1,477,417
Accounts receivable	4	455,936	926,579
Inventory	5	265,682	87,754
Prepaid expenses		249,706	47,463
Total current assets		1,681,816	2,539,213
Non-current assets			
Intangible assets	6	1,810,072	1,854,509
Total non-current assets		1,810,072	1,854,509
<b>Total assets</b>		<b>3,491,888</b>	<b>4,393,722</b>
<b>Liabilities and Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities		836,110	574,295
License fee payable	10(b)	572,940	974,100
Total current liabilities		1,409,050	1,548,395
Non-current liabilities:			
Long-term loan payable	8	40,000	-
Total non-current liabilities		40,000	-
Total liabilities		1,449,050	1,548,395
Equity (Deficit):			
Share capital	7(b)	7,000,100	7,000,100
Contributed surplus		809,159	825,560
Accumulated other comprehensive income(loss)		(55,908)	24,417
Deficit		(5,710,513)	(5,004,750)
Total equity		2,042,838	2,845,327
<b>Total liabilities and equity</b>		<b>\$ 3,491,888</b>	<b>\$ 4,393,722</b>

*Commitments and contingencies (Note 10)*

On behalf of the board

"Dr. Albert D. Friesen"  
Director

"Mr. P. Marcus Enns"  
Director

See accompanying notes to the consolidated financial statements.



**Waverley Pharma Inc.**  
**Consolidated Statements of Net Loss and Comprehensive Loss**  
**(expressed in Canadian dollars)**

<b>For the year ended December 31</b>	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Revenue from contracts with customers</b>		<b>\$ 1,375,105</b>	<b>\$ 1,157,274</b>
Cost of goods sold	<b>5</b>	<b>1,193,399</b>	<b>1,108,339</b>
<b>Gross Profit</b>		<b>181,706</b>	<b>48,935</b>
<b>Expenses</b>			
Selling, general and administrative		<b>\$ 837,875</b>	<b>\$ 1,375,375</b>
Research and development	<b>6</b>	<b>53,432</b>	<b>87,204</b>
		<b>891,307</b>	<b>1,462,579</b>
<b>Loss before the undernoted</b>		<b>(709,601)</b>	<b>(1,413,644)</b>
Other income:			
Loss recovery under profit sharing arrangement	<b>10(b)</b>	<b>(11,781)</b>	<b>(152,792)</b>
		<b>(11,781)</b>	<b>(152,792)</b>
Finance costs (income):			
Finance income, net		<b>(5,392)</b>	<b>(45,993)</b>
Foreign exchange loss (gain)		<b>13,335</b>	<b>(81)</b>
		<b>7,943</b>	<b>(46,074)</b>
<b>Net loss</b>		<b>\$ (705,763)</b>	<b>\$ (1,214,778)</b>
Translation adjustment		<b>(80,325)</b>	<b>(59,027)</b>
<b>Comprehensive loss</b>		<b>\$ (786,088)</b>	<b>\$ (1,273,805)</b>
Loss per share attributable to shareholders:			
Basic and Diluted	<b>7(e)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
Weighted average shares outstanding:			
Basic and Diluted	<b>7(e)</b>	<b>54,000,000</b>	<b>54,000,000</b>

See accompanying notes to the consolidated financial statements.



**Waverley Pharma Inc.**  
**Consolidated Statements of Changes in Equity (Deficit)**  
**(expressed in Canadian dollars)**

						Accumulated other comprehensive income (loss)	Deficit	Total Equity (Deficit)
	Note	Share capital	Warrants	Contributed surplus				
Balance, December 31, 2018		\$ 7,000,100	\$ 244,097	\$ 434,647	\$	83,444	\$ (3,789,972)	\$ 3,972,316
Net loss for the year ended December 31, 2018		-	-	-		-	(1,214,778)	(1,214,778)
Other comprehensive loss for the year ended December 31, 2018		-	-	-		(59,027)	-	(59,027)
Transfer on expiry of warrants			(244,097)	244,097				
Stock-based compensation	7(c)	-	-	146,816		-		146,816
Balance, December 31, 2019		\$ 7,000,100	\$ -	\$ 825,560	\$	24,417	\$ (5,004,750)	\$ 2,845,327
<b>Balance, December 31, 2019</b>		<b>\$ 7,000,100</b>	<b>\$ -</b>	<b>\$ 825,560</b>	<b>\$</b>	<b>24,417</b>	<b>\$ (5,004,750)</b>	<b>\$ 2,845,327</b>
Net loss for the year ended December 31, 2020		-	-	-		-	(705,763)	(705,763)
Other comprehensive loss for the year ended December 31, 2020		-	-	-		(80,325)	-	(80,325)
Stock-based compensation	7(c)	-	-	(16,401)		-	-	(16,401)
<b>Balance, December 31, 2020</b>		<b>\$ 7,000,100</b>	<b>\$ -</b>	<b>\$ 809,159</b>	<b>\$</b>	<b>(55,908)</b>	<b>\$ (5,710,513)</b>	<b>\$ 2,042,838</b>

See accompanying notes to the consolidated financial statements.

**Waverley Pharma Inc.**  
**Consolidated Statements of Cash Flows**  
**(expressed in Canadian dollars)**

<b>For the year ended December 31</b>	<b>Note</b>	<b>2020</b>	<b>2019</b>
Cash (used in) provided by:			
Operating activities:			
Net loss for the year		\$ (705,763)	\$ (1,214,778)
Adjustments for:			
Stock-based compensation	7(c)	(16,401)	146,816
Finance income, net		(5,392)	(45,993)
Amortization	6	8,172	-
Changes in working capital accounts:			
Accounts receivable		470,643	(598,595)
Inventory		(177,928)	(58,255)
Prepaid expenses		(202,243)	(21,229)
Accounts payable and accrued liabilities		261,815	333,196
Interest received, net		5,392	45,993
<b>Cash flows used in operating activities</b>		<b>(361,705)</b>	<b>(1,412,845)</b>
Financing activities:			
Payments on license fees payable		(413,655)	-
Proceeds from long-term loan		40,000	-
<b>Cash flows used in financing activities</b>		<b>(373,655)</b>	<b>-</b>
Decrease in cash		(735,360)	(1,412,845)
Effect of exchange rate differences on cash		(31,565)	(52,706)
Cash, beginning of year		1,477,417	2,942,968
<b>Cash, end of year</b>		<b>\$ 710,492</b>	<b>\$ 1,477,417</b>
<b>Supplemental information</b>			
Changes in liabilities arising from financing activities			
Opening balances			
Current portion of license fee payable		\$ 974,100	\$ 1,023,150
		\$ 974,100	\$ 1,023,150
Payments on license fees payable		(413,655)	-
Proceeds from long-term loan		40,000	-
Movement in exchange rates		12,495	(49,050)
Ending balance		\$ 612,940	\$ 974,100

See accompanying notes to the consolidated financial statements.

## 1. Reporting entity:

Waverley Pharma Inc. ("**Waverley**" or the "**Company**") was incorporated as Buffalo Capital Inc. ("**Buffalo**") pursuant to the provisions of the Canada Business Corporations Act ("**CBCA**") on December 14, 2016 and was classified as a Capital Pool Corporation ("**CPC**") as defined by Policy 2.4 of the TSX Venture Exchange (the "**Exchange**"). On October 24, 2017, the Company completed a qualifying transaction (the "**QT**") with Waverley Pharma Inc. and the name continued as Waverley Pharma Inc in accordance with the CBCA.

The Company is domiciled and incorporated in Canada and its Common Shares are listed on Tier 2 of the Exchange under the symbol "WAVE". The address of the Company's registered office and head office is 4-1250 Waverley Street, Winnipeg, Manitoba, Canada, R3T 6C6.

The Company is a biopharmaceutical company engaged in the research, development and commercialization of human therapeutics focused on oncology. Through its wholly owned Barbadian subsidiary, Waverley Pharma International Inc. ("**WPII**"), the Company has entered into a license, manufacture, supply, marketing and distribution agreement with Reliance Life Sciences Private Limited ("**RLS**" or the "**Licensor**") by which the Licensor granted the Company an exclusive territorial license to market and sell capecitabine in the United Kingdom (the "**UK**") and Germany as well as a non-exclusive territorial license to market and sell temozolomide and erlotinib in the UK. Additionally, the Company has acquired exclusive territorial licenses from RLS to two oncologic drugs currently under development, pemetrexed (formerly known as WAV-101) and WAV-102 in the United States and its territories (the "**USA**"), Canada, and the European Union (the "**EU**"). In addition, the Company has obtained a non-exclusive license to sell both pemetrexed and WAV-102 in the UK. These products are marketed in the EU and the UK through the Company's wholly owned Irish subsidiary, Waverley Pharma Europe Limited ("**WPEL**").

## 2. Basis of preparation:

### (a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and Interpretations issued by the International Financial Reporting Interpretations Committee ("**IFRIC**").

The consolidated financial statements were authorized for issue by the Board of Directors on April 26, 2021.

### (b) Basis of presentation

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss ("**FVTPL**") are measured at fair value.

### (c) Going concern

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due.

The Company is a research and development stage company and as such is primarily dependent on financing provided from external sources to continue as a going concern. Management intends to raise capital in order to fund its operations, however, the outcome of these matters cannot be predicted at this time. In addition, there is uncertainty surrounding the potential impacts of COVID-19 on the Company and its subsidiaries. The COVID-19 pandemic has resulted in uncertainties surrounding the shipment of products, fluctuations of foreign exchange, and delays in collections on accounts. Due to the preventive measures taken by the UK and EU with respect to preventing the spread of the virus, the Company is unable, at this time, to assess the future impact of COVID-19 on the Company and its subsidiaries' operations. In addition, during the year ended December 31, 2020, the Company incurred a net loss of \$705,763 (2019 - \$1,214,778), with cash used in operating activities of \$361,705 (2019 - \$1,412,845) and, as at December 31, 2020, has a deficit of \$5,710,513 (2019 - \$5,004,750).

## 2. Basis of preparation (continued):

### (c) *Going concern (continued)*

The above noted events and conditions indicate that material uncertainties exist that may cast significant doubt upon the Company's ability to continue as a going concern. In the future, the Company's ability to continue as a going concern will be dependent upon its ability to attain profitable operations and generate funds there from, and to continue to obtain funds from equity financings or borrowings from third parties sufficient to meet current and future obligations and/or restructure the existing liabilities. These consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations.

### (d) *Functional and presentation currency*

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented has been rounded to the nearest dollar except where indicated otherwise.

### (e) *Use of estimates and judgments*

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses during the period.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas in which management has made critical judgments in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements include the determination of the Company's and its subsidiaries' functional currencies.

Information about key assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are included in the following notes to the consolidated financial statements for the year ended December 31, 2020:

- Note 3(e): Estimates of variable consideration receivable from revenue from contracts with customers
- Note 3(g): Estimates of the measurement and valuation of inventory
- Note 3(h): Estimates of the measurement, valuation and period of use of intangible assets
- Note 3(l): Estimates and assessment of the recoverability of unused tax losses and deductible temporary differences
- Note 3(n): Estimates regarding assumptions used to estimate the value of share-based payment transactions and warrants

## 3. Significant accounting policies:

### (a) *Basis of Consolidation*

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities that are controlled by the Company. Control exists when the Company has power over the investee and the Company is exposed or has the rights to variable returns from the investee. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control and include wholly owned subsidiaries, WPIL (Barbados) and WPEL (Ireland). The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent account policies. All intercompany transactions and balances and unrealized gains and losses from intercompany transactions have been eliminated.

**3. Significant accounting policies (continued):**

**(b) Foreign currency**

Items included in the financial statements of each of the Company's consolidated subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. The functional currency of WPIL is the United States dollar ("USD"), and the functional currency of WPEL is the British Pound ("GBP") based on the nature of each subsidiary's operating activities.

Foreign currency transactions are translated into the respective functional currencies of the Company and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss. Non-monetary items that are not carried at fair value are translated using the exchange rates as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

**(c) Financial instruments**

**(i) Financial assets**

The Company initially recognizes a financial asset on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Upon recognition of a financial asset, classification is made based on the business model for managing the asset and the asset's contractual cash flow characteristics. The financial asset is initially recognized at its fair value and subsequently classified and measured as (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL. Financial assets are classified as FVTPL if they have not been classified as measured at amortized cost or FVOCI. Upon initial recognition of an equity instrument that is not held-for-trading, the Company may irrevocably designate the presentation of subsequent changes in the fair value of such equity instrument as FVTPL.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has classified all of its non-derivative financial assets as financial assets measured at amortized cost. The Company has not classified any financial assets as FVOCI or FVTPL.

**Financial assets measured at amortized cost**

A non-derivative financial asset is measured at amortized cost when both of the following conditions are met: (i) the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such assets are recognized initially at fair value plus any directly attributable transaction costs and measured at amortized cost using the effective interest method subsequent to initial recognition, loans and receivables are measured at amortized cost. Financial assets measured at amortized cost are comprised of cash and accounts receivable.

**3. Significant accounting policies (continued):**

**(c) Financial instruments (continued)**

**(ii) Financial liabilities**

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. All financial liabilities are measured at amortized cost, except for financial liabilities measured at FVTPL. A financial liability may no longer be reclassified subsequent to initial recognition. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or when they expire.

The Company has the following non-derivative financial liabilities which are classified as financial liabilities measured at amortized cost: accounts payable and accrued liabilities and license fee payable.

**(d) Impairment of financial assets**

An “expected credit loss” impairment model applies to financial assets, specifically trade receivables, which requires a loss allowance to be recorded on financial assets measured at amortized cost based on their expected credit losses. For trade receivables, the Company applies a simplified approach in calculating expected credit losses. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime expected credit losses at each reporting date. The Company tracks its experience with historical credit losses and factors in any forward-looking relevant information specific to its customers or the economic environment.

**(e) Revenue from contracts with customers**

The Company is in the business of providing human therapeutics with a focus on oncology. The Company holds tenders (each a “**Tender**”) from the UK National Health Service (the “**UK NHS**”) by which the Company supplies capecitabine, temozolomide and erlotinib to the UK NHS as agreed upon in the respective Tender. The Company has entered into a logistics and distribution agreement with a third-party wholesaler (the “**Wholesaler**”). Revenue from the sale of finished products is recognized upon removal of the goods from inventory to be distributed to the end-customer, the point in time in which title and control of the goods pass from the Company to the Wholesaler.

Revenue from product sales is measured at the amount as awarded in the corresponding Tender in which the sale occurs. The Company measures revenue at the amount in which it expects to be entitled to for providing finished products to the Wholesaler. The Company includes variable consideration in the transaction price to extent that it is highly probable that a significant reversal in the cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved, using the most likely amount technique. Product sales do not contain an element of financing as sales are made with a credit term of one month subsequent to the issuance of the invoice, which is consistent with market practice.

**(f) Cash equivalents**

The Company considers all liquid investments purchased with a maturity of three months or less at acquisition to be cash and cash equivalents, which are considered financial assets measured at amortized cost.

**3. Significant accounting policies (continued):**

**(g) Inventory**

The Company's inventory consists of finished commercial product which is available for sale and measured at the lower of cost and net realizable value.

The cost of inventory is based on the first-in first-out principle and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to the existing location and condition.

Inventory is written down to net realizable value when the cost of inventory is estimated to be unrecoverable due to obsolescence, damage, or declining selling prices. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses. When the circumstances that previously caused inventories to be written down below cost no longer exist, or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed.

**(h) Intangible assets**

Intangible assets that are acquired separately are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Licenses are amortized on a straight-line basis over the term in which the license has been granted.

Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. The cost of servicing the Company's intangible assets are expensed as incurred.

The amortization method and amortization period of an intangible asset with a finite useful life are reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates in the consolidated statements of net loss and comprehensive loss.

**(i) Research and development**

Research and development expenses include all direct and indirect operating expenses supporting the products in development.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if the associated costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The Company has not capitalized any development costs to date.

**3. Significant accounting policies (continued):**

**(j) Impairment of non-financial assets**

The Company assesses at each reporting period whether there is an indication that a non-financial asset may be impaired. An impairment loss is recognized when the carrying amount of an asset, or its cash generating unit ("CGU"), exceeds its recoverable amount. Impairment losses are recognized in net loss and comprehensive loss and included in research and development expense if they relate to patents. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount is the greater of the asset's or CGU's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less cost to sell, an appropriate valuation model is used. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

**(k) Government assistance**

Government assistance is recognized at fair value when there is reasonable assurance that the grant will be received and all conditions will be complied with. Government assistance is recognized in profit or loss on a systematic basis over the periods in which the related expenses are incurred. Government assistance that becomes receivable for previously incurred expenses is recognized in profit or loss in the period in which it becomes receivable.

**(l) Income taxes**

Income tax expense comprises current and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss.

Current taxes are the expected tax receivable or payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax receivable or payable in respect of previous years.

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

In addition, deferred taxes are not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**3. Significant accounting policies (continued):**

**(m) Earnings per share**

The Company presents basic earnings per share ("**EPS**") data for its common voting shares. Basic EPS is calculated by dividing the profit or loss attributable to common voting shareholders of the Company by the weighted average number of common voting shares outstanding during the period, adjusted for the Company's own shares held. Diluted EPS is computed similar to basic EPS except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercise were used to acquire common shares at the average market price during the reporting periods.

**(n) Share-based payments**

Where equity instruments are issued and some or all of the goods or services received by the Company as consideration cannot be specifically identified, these non-identifiable goods or services are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity instruments granted is recognized as an expense over the estimated vesting period with a corresponding increase to contributed surplus.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction. The estimate of the number of equity instruments expected to vest is revised if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense and contributed surplus reflects the revised estimate.

Market and non-vesting conditions are taken into account when estimating the fair value of the equity instruments granted and therefore the expense is recognized irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied.

**(o) Leases**

The leases for which the Company has entered into are considered low valued leases, with an expected lease term ending within twelve (12) months of the current reporting period. The low valued leases are expensed on a straight-line basis over their remaining lease term, which was determined to be the most representative method to recognize the benefit obtained from the low valued leases.

**(p) New standard not yet adopted**

**Amendments to International Accounting Standard ("IAS") 1 – presentation of financial statements:**

In January 2020, the IAS issued an amendment to IAS 1 Presentation of Financial Statements that clarifies the criterion for classifying a liability as non-current relating to the right to defer settlement of a liability for at least 12 months after the reporting period. The amendment applies to annual reporting periods beginning on or after January 1, 2023. The Company does not expect the amendments to have a significant impact on the consolidated financial statements upon adoption.

**Waverley Pharma Inc.**  
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**4. Accounts receivable**

As at December 31	2020	2019
Trade accounts receivable	\$ 445,803	\$ 668,705
Other accounts receivable	10,133	257,874
	<b>\$ 455,936</b>	<b>\$ 926,579</b>

As at December 31, 2020 and 2019, there was one customer with amounts owing greater than 10% of the Company's trade accounts receivable which comprised the entire balance.

**5. Inventory**

Inventory consists of finished product available for sale to customers. Inventory expensed as part of cost of goods sold during the year ended December 31, 2020 totaled \$1,193,399 (2019 – \$1,108,339).

**6. Intangible assets:**

Cost	Licenses
Balance, December 31, 2018	\$ 1,909,880
Acquisitions	36,189
Effects of movements in exchange rates	(91,560)
<b>Balance, December 31, 2019</b>	<b>\$ 1,854,509</b>
Amortization	(8,172)
Effects of movements in exchange rates	(36,265)
<b>Balance, December 31, 2020</b>	<b>\$ 1,810,072</b>

On August 30, 2017, the Company acquired exclusive territorial licenses from RLS to sell and market two generic cancer drugs in the USA, Canada and the EU (excluding the UK where a non-exclusive territorial license was acquired). As at December 31, 2020, the products these licenses relate to were still underdevelopment and were not commercialized. Therefore, the Company did not realize any amortization expense relating to these intangible licenses for the year ended 2020 or 2019. The value of these licenses on the Company's balance sheet as at December 31, 2020 is US \$1,400,000.

On December 17, 2019, the Company acquired the rights to market erlotinib in the United Kingdom. The Company began selling the product during May 2020, and subsequently began amortizing the license on a straight-line basis over three years. The amortization expense is included in research and development expense on the consolidated statements of net loss and comprehensive loss.

The Company performed impairment testing on the intangible assets as at December 31, 2020 and 2019. The impairment analysis performed used a 15% discount rate on future cash flows expected to be generated by the products related to the intangible assets. The Company concluded that there were no indicators of impairment as the discounted fair value, or recoverable amount, of the intangible assets was greater than their carrying value. The recoverable amount of each intangible asset included in the analysis was determined using the fair value less costs of disposal method. As a result, the Company did not record an impairment charge in either the year ended December 31, 2020 or 2019.

**7. Capital stock:**

**(a) Authorized**

The Company has authorized share capital of an unlimited number of common voting shares.

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**7. Capital stock (continued):**

**(b) Shares issued and outstanding**

Shares issued and outstanding are as follows:

	Number of Common Shares	Amount
Balance, December 31, 2018	54,000,000	\$ 7,000,100
<b>Balance, December 31, 2019</b>	<b>54,000,000</b>	<b>\$ 7,000,100</b>
<b>Balance, December 31, 2020</b>	<b>54,000,000</b>	<b>\$ 7,000,100</b>

**(c) Stock option plan**

The Company has an incentive stock option plan whereby the Company may grant to directors, officers, employees and contractors incentive stock options (the “options”) to purchase voting common shares of the Company. The terms and conditions of each option granted under the stock option plan are determined by the Board of Directors. The number of common shares reserved for issuance upon the exercise of options is limited to a maximum of 10% of the issued and outstanding common shares of the Company at any time.

The fair value of the options issued during the year ended December 31, 2020 was estimated using the following Black-Scholes Model assumptions:

Expected life	5 years
Expected volatility	55.00%
Risk free rate	1.29%
Dividend yield	-
Underlying share price	\$0.10
Strike price	\$0.10

Expected volatility was estimated by reference to comparable listed entities. Stock-based compensation expense (recovery) for the year ended December 31, 2020 totaled \$(16,401) (2019 – \$146,816) was recorded in general and administrative expenses during the period. The compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model. Any recoveries recorded through stock-based compensation was based on forfeiture of stock options previously issued, that had not vested by the date of forfeiture. The expected life of stock options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Changes in the number of options outstanding during the years ended December 31, 2020 and 2019 are as follows:

Year ended December 31	2020		2019	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance, beginning of period	1,750,000	\$ 0.38	1,750,000	\$ 0.39
Granted	275,000	0.10	-	-
Expired/Forfeited	(765,000)			
Balance, end of period	1,260,000	\$ 0.35	1,750,000	\$ 0.39
Options exercisable, end of period	1,043,333	\$ 0.40	1,178,332	\$ 0.38

**Waverley Pharma Inc.**  
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**7. Capital stock (continued):**

**(c) Stock option plan (continued)**

The following is a summary of the 1,260,000 outstanding options issued under the stock option plan:

Exercise price	Number outstanding	Weighted average remaining contractual life	Number exercisable	Weighted average remaining vesting period
\$0.100	275,000	4.1 years	75,000	0.4 years
\$0.200	225,000	6.3 years	225,000	-
\$0.260	10,000	0.4 years	10,000	-
\$0.285	50,000	2.9 years	33,333	0.3 years
\$0.500	700,000	6.8 years	700,000	-
	1,260,000		1,043,333	

**(d) Warrants**

Changes in the number of warrants outstanding during the years ended December 31, 2020 and 2019 are as follows:

Year ended December 31	2020		2019	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Balance, beginning of period	-	\$ -	970,000	\$ 0.44
Expired <sup>(1) (2)</sup>	-	-	(970,000)	(0.44)
Balance, end of period	-	\$ -	-	\$ -

<sup>(1)</sup> On April 27, 2017, Buffalo granted 200,000 warrants to an agent as partial compensation for their role in a completed financing. The warrants converted into warrants of Waverley upon the completion of the QT. Each warrant entitles the holder to purchase one (1) common share of Waverley and were exercisable within 24 months of the date of grant at an exercise price of \$0.20 per common share. These warrants expired on April 27, 2019 without being exercised.

<sup>(2)</sup> On October 24, 2017, immediately prior to the QT, Buffalo granted 770,000 warrants to an agent as partial compensation for their role in a completed financing. The warrants converted into warrants of Waverley upon the completion of the QT. Each warrant entitles the holder to purchase one (1) common share of Waverley and were exercisable within 24 months of the date of grant at an exercise price of \$0.50 per common share. These warrants expired on October 24, 2019 without being exercised.

**(e) Per share amounts**

The weighted average number of common voting shares outstanding for the years ended December 31, 2020 and 2019 was 54,000,000. Effects of dilution from 1,260,000 options were excluded from the calculation of weighted average shares outstanding for diluted EPS for the years ended December 31, 2020 and 2019 as they are anti-dilutive.

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**8. Government Assistance**

During the year ended December 31, 2020, the Company recorded \$36,104 (2019 – \$nil) in government assistance resulting from the Canada Emergency Wage Subsidy. The funding has been recorded as a reduction of the related salary expenditures within selling, general and administrative expenses.

During the year ended December 31, 2020, the Company recorded \$68,135 (2019 - \$65,232) in government assistance resulting from a non-repayable grant received from the National Research Council of Canada Industrial Research Assistance Program (“**NRC IRAP**”). The grant was provided as financial assistance for salary expenditures in connection with the development of pemetrexed and WAV-102. The grant has been recorded as a reduction of salary expenditures within selling, general, and administrative expenses.

In addition, on June 29, 2020 the Company received \$40,000 as an interest-free loan from the government of Canada as part of the Canada Emergency Business Account (“**CEBA**”) program. The term loan is interest free until December 31, 2022, with an option for an extension until December 31, 2025 at an interest rate of 5% per annum. If the term loan is repaid prior to December 31, 2022, 25% of the loan will become forgivable. The amount has been recorded at its fair value which is approximately the amount noted within the CEBA loan agreement.

**9. Income taxes:**

As at December 31, 2020 and 2019, the Company has unused tax losses and deductible temporary differences for which no deferred tax asset has been recognized as follows:

As at December 31	2020	2019
Non-capital loss carryforwards	\$ 3,885,584	\$ 3,140,875
Deductible temporary differences	14,568	51,496

The reconciliation between income tax expense and the accounting loss multiplied by the combined federal and provincial income tax rate is as follows:

Year ended December 31	2020	2019
Loss for the year		
Canada	\$ (285,647)	\$ (633,305)
Foreign	(420,116)	(581,473)
	\$ (705,763)	\$ (1,214,778)
Income tax recovery at Canadian statutory rate of 27.0%	\$ (190,556)	\$ (327,990)
Impact of lower tax rates in foreign jurisdictions	79,074	92,405
Non-deductible expenses	(4,316)	40,263
Taxable loss carry-forwards and deductible temporary differences not recognized	115,798	195,322
	\$ -	\$ -

The foreign tax rate differential is the difference between the Canadian federal and provincial statutory income tax rate and the tax rates in Barbados (2.50%) and Ireland (12.50%) that is applicable to income earned or losses incurred by the Company's subsidiaries.

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**9. Income taxes (continued):**

As at December 31, 2020, Canadian non-capital losses available for application in future years, are approximately as follows:

Year of expiry	
2033	\$ 1,587
2034	3,516
2035	738,176
2036	28,321
2037	75,421
2038	313,828
2039	494,999
2040	313,592
	<b>\$ 1,969,440</b>

As at December 31, 2020, Barbados non-capital losses available for application in future years, are approximately as follows:

Year of expiry	
2024	\$ 40,683
2025	703,489
2026	70,432
2027	96,728
	<b>\$ 911,332</b>

Additionally, Ireland non-capital losses available for application in future years are approximately \$1,004,812 and are estimated to be available for use for an indefinite period of time.

**10. Commitments and contingencies:**

**(a) Commitments**

As at December 31, 2020, and in the normal course of business, the Company has obligations to make future payments representing contracts and other commitments that are known and committed. The Company, through a subsidiary, WPEL has committed to an office space lease at a rate of €908 (CAD \$1,417) per month for a term ending October 31, 2021 and a commitment of £76,086 (CAD \$132,245) for inventory to be provided to the Company. All commitments are current and expected to be settled within one year of December 31, 2020.

**(b) Contingencies**

*June 7, 2018 agreement*

On June 7, 2018, the Company through WPIL entered into a license, manufacture, supply, marketing and distribution agreement with RLS by which the Licensor granted the Company an exclusive territorial license to market and sell capecitabine in the UK and Germany and non-exclusive territorial license to market and sell temozolomide in the UK. Additionally, the Company has assumed the obligations associated with binding contracts held by the Licensor for the supply of these products to the UK NHS. All inventory purchased for resale will be purchased from RLS, in accordance with the June 7, 2018 agreement.

## 10. Commitments and contingencies (continued):

### (b) Contingencies (continued)

#### *June 7, 2018 agreement*

In addition, as part of the June 7, 2018 agreement, the Company was provided an option to obtain the market authorization rights to erlotinib in the UK. On December 17, 2019, the Company elected to exercise this option and obtained the rights to market erlotinib in the UK, and as of May 1, 2020, the Company began commercialization of erlotinib in the UK. Similar to both capecitabine and temozolomide, all inventory purchased for resale will be purchased from RLS, in accordance with the June 7, 2018 agreement.

In connection with the signing of the June 7, 2018 agreement, the Company entered into a profit and/or loss sharing arrangement resulting in a portion of the net profits, after a margin deduction to the Company on the sales of capecitabine, temozolomide and erlotinib, to be paid to RLS. During the year ended December 31, 2020, the Company recorded a recovery of \$11,781 (2019 - \$152,792) in the consolidated statement of net loss and comprehensive loss.

#### *August 30, 2017 agreement*

On August 30, 2017, the Company acquired exclusive licenses to sell and market two generic cancer drugs from RLS, in the USA, Canada and Europe (excluding the UK where a non-exclusive license was acquired). An up-front payment of US \$20,000 was made upon signing of the term sheet on July 5, 2017 and a US \$180,000 payment was made upon signing of the definitive documentation on August 30, 2017. Additional payments of US \$1,200,000 are payable upon certain development and approval based milestones being met and as at December 31, 2020, the Company has paid US \$750,000 of the remaining US \$1,200,000 with US \$450,000 (CAD \$572,940) recorded as license fee payable. The amount recorded as license fee payable represents the remaining portion of the milestones which have not been met, the remaining milestone payments are recorded as current liabilities as they are expected to be met within one year of December 31, 2020. Additionally, the Company will purchase inventory and pay a royalty of 7.5% of its net sales from these two products to the Licensor. The term of the August 30, 2017 agreement is a period of ten (10) years, which begins when regulatory approval is obtained in the USA.

#### *Importation Value Added Tax Contingency*

On October 7, 2020, the Company was made aware that the importation value added tax (“VAT”) its wholesaler had paid on its behalf from October 2018 to September 2019 had been rejected by Her Majesty’s Revenue and Customs (“HMRC”). The wholesaler has requested to claw back this amount from the Company, creating the possibility of a future liability. The Company is currently working with its consultants in the United Kingdom regarding the matter, however, has elected to record a provision for the potential liability in the year-end financial statements of £65,165 (CAD \$113,263).

## 11. Related party transactions:

### (a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Board, Chief Executive Officer and Chief Financial Officer of the Company are considered to be key management personnel.

The following table details the compensation paid to key management personnel:

For the year ended December 31	2020		2019	
Salaries, fees and short-term benefits	\$	128,900	\$	136,035
Stock-based compensation		35,942		128,356
	\$	164,842	\$	264,391

# 11. Related party transactions (continued):

## (b) Transactions with related parties

Directors and key management personnel control 75% of the voting shares of the Company as at December 31, 2020 (2019 - 75%).

During the year ended December 31, 2020, the Company paid Genesys Venture Inc. ("GVI"), a company controlled by a director of the Company, a total of \$6,000 (2019 - \$3,500) for rental of office space and \$7,112 (2019 - \$11,608) for business administration services.

During the year ended December 31, 2020, the Company paid GVI Clinical Development Solutions ("GVI CDS") a company controlled by a director of the Company, \$268 (2019 - \$1,444) for regulatory affairs consulting.

These transactions were in the normal course of business and have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at December 31, 2020, included in accounts payable and accrued liabilities is \$2,112 (2019 - \$2,351) payable to GVI, which is unsecured, payable on demand and non-interest bearing.

# 12. Expenses by nature:

Expenses incurred for the years ended December 31, 2020 and 2019 are as follows:

For the year ended December 31	2020	2019
Salaries, fees and short-term benefits	\$ 130,763	\$ 227,653
Stock-based compensation	(16,401)	146,816
Total employee benefits	\$ 114,362	\$ 374,469
General and administrative	281,885	733,698
Inventory material costs	1,193,399	1,108,339
Professional fees	376,137	267,208
Research and development	53,432	87,204
Selling and logistics	65,491	-
	\$ 2,084,706	\$ 2,570,918

### 13. Financial instruments:

#### (a) Financial assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the consolidated financial statements as at December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Measured at amortized cost				
Cash	\$ 710,492	\$ 710,492	\$ 1,477,417	\$ 1,477,417
Accounts receivable	455,936	455,936	926,579	926,579
<b>Financial liabilities</b>				
Measured at amortized cost				
Accounts payable and accrued liabilities	\$ 836,110	\$ 836,110	\$ 574,295	\$ 574,295
License fee payable	572,940	572,940	974,100	974,100
Long-term loan payable	40,000	40,000	-	-

IFRS 13, *Fair Value Measurement*, establishes a fair value hierarchy that reflects the significance of the inputs used in measuring fair value. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;
- Level 3 – Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The fair value hierarchy of financial instruments measured at fair value on the consolidated statements of financial position as at December 31, 2020 is as follows:

	Level 1	Level 2	Level 3
<b>Financial Liabilities</b>			
Long-term loan payable	-	-	40,000

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. During the years ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements.

### 13. Financial instruments:

#### (b) Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of financial risks; market risk (including foreign exchange and interest rate risks), credit risk and liquidity risk. Risk management is the responsibility of the Company, which identifies, evaluates and, where appropriate, mitigates financial risks.

##### (i) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and price risk with respect to equity prices.

(a) Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash and no interest-bearing debt and is not subject to significant interest rate risk.

(b) Foreign exchange risk is the risk that the fair value of future cash flows for financial instruments will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risks through the following USD and GBP denominated financial assets and liabilities:

	December 31, 2020	December 31, 2019
<i>USD (Expressed in USD)</i>		
Cash	\$ 66,035	\$ 78,818
Accounts receivable	1,575	1,575
Accounts payable and accrued liabilities	(7,864)	(28,561)
License fee payable	(450,000)	(750,000)
	\$ (390,254)	\$ (698,168)
<i>GBP (Expressed in GBP)</i>		
Cash	£ 14,182	£ 10,959
Accounts receivable	256,489	534,194
Accounts payable and accrued liabilities	(425,436)	(249,910)
	£ 154,765	£ 295,243

Based on the above net exposures as at December 31, 2020, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the USD would result in a corresponding increase or decrease, respectively on the Company's net loss of approximately \$25,000 (2019 – \$45,000). Based on the above net exposures as at December 31, 2020, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the GBP would result in a corresponding decrease or increase, respectively on the Company's net loss of approximately \$13,000 (2019 – \$39,000).

(c) The Company is not exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market.

**13. Financial instruments (continued):**

**(b) Risks arising from financial instruments and risk management (continued)**

**(ii) Credit risk**

Credit risk is the risk of financial loss to the Company if a partner or counterparty to a financial instrument fails to meet its contractual obligation and arises principally from the Company's cash and accounts receivable. The carrying amounts of the financial assets represents the maximum credit exposure.

The Company will limit its exposure to credit risk on cash by placing these financial instruments with high-credit quality financial institutions and the Company believes it has no significant credit risk regarding cash.

The Company is subject to a concentration of credit risk related to its trade accounts receivable as 100% of the balance of amounts owing is from one customer. As at December 31, 2020 none of the outstanding trade accounts receivable were outside of the normal payment terms and the Company did not record any bad debt expenses in the year ended December 31, 2020 (2019 – 158,212). During 2019, as a result of the COVID-19 pandemic, the Company recorded a bad debt expense of \$158,212 in relation to the profit share arrangement. During 2020, the Company recovered \$107,211 of this amount and recorded the recovery of bad debt expense in selling, general and administration expenses.

**(iii) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. In the current year, the Company's interest income decreased due to a decreased cash balance at December 31, 2020 in comparison to the prior year. Although the decreases in both cash and interest income in the current year, the Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows, as well as anticipated investing and financing activities and to ensure that it will have sufficient liquidity to meet its liabilities when due and to fund future operations.

The Company's accounts payable and accrued liabilities and license fee payable are due within the current operating period.

**(c) Capital management**

The Company defines its capital as cash and equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its business. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Additional funds may be required to advance the Company's business.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable.

**14. Determination of fair value:**

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following models. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(a) Intangible assets**

For the purposes of impairment testing, the fair value of intangible assets is based on the discounted cash flows expected to be derived from the use or eventual sale of the assets.

**(b) Share-based payment transactions**

Upon initial recognition, the fair value of options is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on comparable listed entities), expected life of the instruments, expected dividends and the risk-free interest rate (based on government bond yields). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

**15. Segmented information:**

The Company operates in one business segment, the biopharmaceutical industry. The Company's intangible assets are located in Barbados. All of the Company's revenue was generated from product sales within the UK, with one customer accounting for 100% of total revenue for the year ended December 31, 2020.