



AEQUUS PHARMACEUTICALS INC.

// CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the three months ended March 31, 2022 and 2021

(Unaudited, Expressed in Canadian dollars)

AEQUUS PHARMACEUTICALS INC.

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

| | Note | March 31, 2022 \$ | December 31, 2021 \$ |
|---|------|-------------------------|----------------------------|
| ASSETS | | (unaudited) | (audited) |
| Current | | | |
| Cash and cash equivalents | 4 | 2,282,907 | 2,436,431 |
| Inventory | 5 | 129,706 | 139,826 |
| Amounts receivable | | 265,843 | 941,079 |
| Prepaid expenses | | 147,522 | 75,639 |
| | | 2,825,978 | 3,592,975 |
| Convertible promissory note | 6 | 509,257 | 512,840 |
| Equipment | | 11,032 | 12,765 |
| Right-of-use lease asset, net | 7 | 199,596 | 229,535 |
| Total assets | | 3,545,863 | 4,348,115 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable | | 278,275 | 157,109 |
| Accrued liabilities | | 168,182 | 221,665 |
| Lease liability | 8 | 151,801 | 150,881 |
| Convertible debt | 9 | 1,986,389 | 1,927,413 |
| | | 2,584,647 | 2,457,068 |
| CEBA Loan | 10 | 27,002 | 26,087 |
| Lease liability | 8 | 42,384 | 75,895 |
| Total liabilities | | 2,654,033 | 2,559,050 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 12 | 23,990,904 | 23,990,904 |
| Reserves | | 4,327,294 | 4,307,643 |
| Deficit | | (27,426,368) | (26,509,482) |
| Total shareholders' equity | | 891,830 | 1,789,065 |
| Total liabilities and shareholders' equity | | 3,545,863 | 4,348,115 |

Nature of operations and going concern (Note 1)

Subsequent events (Notes 12c, 12d and 16)

These condensed consolidated interim financial statements were approved for issue by the Audit Committee on June 30, 2022 and signed on its behalf by:

"Douglas Janzen"

Director

"Christopher Clark"

Director

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

AEQUUS PHARMACEUTICALS INC.

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited, Expressed in Canadian dollars)

| | Note | Three Months Ended March 31, 2022 \$ | Three Months Ended March 31, 2021 \$ |
|---|------|--|--|
| Revenue | | | |
| Promotional services | 15 | 262,520 | 481,463 |
| Product sales | | 39,760 | 10,358 |
| | | 302,280 | 491,821 |
| Cost of goods sold | | 9,781 | 2,613 |
| | | 292,499 | 489,208 |
| Expenses | | | |
| Research and development | 13 | 246,107 | 87,898 |
| Sales and marketing | 13 | 489,132 | 477,830 |
| General and administration | 13 | 475,828 | 547,116 |
| | | 1,211,067 | 1,112,844 |
| Loss before other income (loss) | | (918,568) | (623,636) |
| Other income (loss) | | | |
| Interest income | 4 | 5,177 | 1,400 |
| Foreign exchange | | (3,495) | 578 |
| | | 1,682 | 1,978 |
| Net loss and comprehensive loss | | (916,886) | (621,658) |
| Basic and diluted loss per common share | | (0.01) | (0.01) |
| Weighted average number of common shares outstanding – basic and diluted | | 132,634,431 | 116,433,388 |

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

AEQUUS PHARMACEUTICALS INC.

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited, Expressed in Canadian dollars)

| | Common Shares | | Reserves | Deficit | Total |
|--|---------------|------------|-----------|--------------|-------------|
| | Number | \$ | \$ | \$ | \$ |
| Balance, December 31, 2020 | 111,916,540 | 21,172,054 | 4,101,790 | (24,699,890) | 573,954 |
| Share-based payments | - | - | 94,168 | - | 94,168 |
| Private placement | 6,666,666 | 1,000,000 | - | - | 1,000,000 |
| Share issuance costs | - | (5,750) | - | - | (5,750) |
| Warrants exercised | 5,785,750 | 725,990 | - | - | 725,990 |
| Shares issued – conversion of convertible debt | 1,390,475 | 292,000 | - | - | 292,000 |
| Convertible debt | - | (18,390) | (9,904) | - | (28,294) |
| Net loss for the period | - | - | - | (621,658) | (621,658) |
| Balance, March 31, 2021 | 125,759,431 | 23,165,904 | 4,186,054 | (25,321,548) | 2,030,410 |
| Share-based payments | - | - | 121,589 | - | 121,589 |
| Warrants exercised | 6,875,000 | 825,000 | - | - | 825,000 |
| Net loss for the period | - | - | - | (1,187,934) | (1,187,934) |
| Balance, December 31, 2021 | 132,634,431 | 23,990,904 | 4,307,643 | (26,509,482) | 1,789,065 |
| Share-based payments | - | - | 19,651 | - | 19,651 |
| Net loss for the period | - | - | - | (916,886) | (916,886) |
| Balance, March 31, 2022 | 132,634,431 | 23,990,904 | 4,327,294 | (27,426,368) | 891,830 |

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

AEQUUS PHARMACEUTICALS INC.

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited, Expressed in Canadian dollars)

| | Three Months Ended March 31, 2022 \$ | Three Months Ended March 31, 2021 \$ |
|---|--|--|
| OPERATING ACTIVITIES | | |
| Net loss | (916,886) | (621,658) |
| Add items not affecting cash: | | |
| Accretion expense | 59,891 | 58,280 |
| Depreciation of equipment | 1,733 | 2,225 |
| Depreciation of right-of-use asset | 29,939 | 29,940 |
| Loss in foreign exchange on promissory note | 7,279 | - |
| Interest expense | 5,129 | 8,002 |
| Share-based payments | 19,651 | 94,168 |
| | (793,264) | (429,043) |
| Changes in non-cash working capital items relating to operations: | | |
| Inventory | 10,120 | 13,989 |
| Amounts receivable | 675,236 | 294,247 |
| Prepaid expenses | (71,882) | (33,184) |
| Interest receivable on promissory note | (3,697) | - |
| Accounts payable and accrued liabilities | 67,683 | 124,254 |
| Cash used in operating activities | (115,804) | (29,737) |
| INVESTING ACTIVITY | | |
| Investment in intangible asset | - | (35,145) |
| Cash used in investing activity | - | (35,145) |
| FINANCING ACTIVITIES | | |
| Issuance of common shares, net of issuance costs | - | 1,720,240 |
| Payments of lease obligation | (37,720) | (36,800) |
| Cash provided by (used in) financing activities | (37,720) | 1,683,440 |
| Increase (decrease) in cash and cash equivalents | (153,524) | 1,618,558 |
| Cash and cash equivalents, beginning | 2,436,431 | 1,718,869 |
| Cash and cash equivalents, ending | 2,282,907 | 3,337,427 |
| Non-cash transactions: | | |
| Conversion of bonds into common shares | - | 263,707 |

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

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021
(Unaudited, Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN //

Aequus Pharmaceuticals Inc. (the “Company”) was incorporated under the *Business Corporations Act* (British Columbia) on January 3, 2013 and is a public company listed on the TSX Venture Exchange (the “Exchange”) under the symbol “AQS”. The Company is a specialty pharmaceutical company with a sales force that currently markets third party or exclusively licensed products for which the Company receives revenues from direct product sales and profit share arrangements.

The Company’s registered and records office is located at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3, and its head office is located at Suite 2820, 200 Granville Street, Vancouver, British Columbia, Canada, V6C 1S4.

These condensed consolidated interim financial statements have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown. These condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The global impact of COVID-19 and the Ukraine war has resulted in a great deal of volatility and uncertainty in the financial markets, global economy and related supply chains. The potential negative impact from these international events on the Company’s financial results remains high and cannot be estimated at this time.

The Company has incurred losses and negative operating cash flows since its inception. As of March 31, 2022, the Company has accumulated a deficit of \$27,426,368. The Company will require further financing to meet its financial obligations and sustain its operations in the normal course of business. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to meet its long-term business strategy depends on its ability to obtain additional equity debt or equity financing and to generate operational cash flow from commercial services revenue. The Company may not be able to raise additional financing on terms agreeable to the Company, or at all.

2. BASIS OF PRESENTATION //

[a] Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board, and interpretations issued by the International Financial Reporting Interpretation Committee.

These condensed consolidated interim financial statements were approved by the Company’s Audit Committee on behalf of its Board of Directors on June 30, 2022.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021
(Unaudited, Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (CONTINUED)

[b] Basis of measurement

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

[c] Functional and foreign currency

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

[d] Significant accounting estimates and judgments

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

CRITICAL JUDGMENTS

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

- i. Research costs are recognized as an expense when incurred, but development costs may be capitalized as intangible assets if certain conditions are met, as described in IAS 38 *Intangible Assets*. Management has determined that development costs do not meet the conditions for capitalization under IAS 38, and all research and development costs have been expensed.
- ii. Management is required to assess the functional currency of the Company and its subsidiary, Aequus Pharma (Canada) Ltd. 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.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the three months ended March 31, 2022 and 2021
(Unaudited, Expressed in Canadian dollars)*

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

- iv. Management is required to determine whether the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future, including the availability of financing and revenue projection, as well as the current working capital balance and future commitments of the Company.

ESTIMATION UNCERTAINTY

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

- i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- ii. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.
- iii. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management's best estimate of the useful life of the intangible assets. Determination of impairment loss is subject to management's assessment if there is any indication of a possible write-down, and if so, the determination of recoverable value based on discounted future cash flows of the intangible assets. The carrying amount of intangible assets does not necessarily reflect present or future value and the ultimate amount recoverable will be dependent upon the successful commercialization of products based on these underlying technologies.
- iv. Promotional services revenues are recognized based on a calculation of estimated profits using actual third-party sales figures. Changes in estimates of revenues, including changes in estimates of revenue due to returns, are recognized prospectively as adjustments to revenue and amounts receivable. When an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense. At each reporting period the entity reviews and, when necessary, revises the estimates of revenue as services are performed.

3. SIGNIFICANT ACCOUNTING POLICIES //

The significant accounting policies applied in the preparation of these condensed consolidated interim financial statements have been applied to all periods presented. Please refer to the audited consolidated financial statements for the year ended December 31, 2021 for a full list of policies.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

(Unaudited, Expressed in Canadian dollars)

4. CASH AND CASH EQUIVALENTS //

| | March 31, 2022 | December 31, 2021 |
|-----------------------|----------------|-------------------|
| | \$ | \$ |
| Cash | 2,238,057 | 2,391,544 |
| Short-term investment | 44,850 | 44,887 |
| | 2,282,907 | 2,436,431 |

As at March 31, 2022, the Company has two collateral investments: \$21,850 maturing on August 9, 2022 with interest at prime less 2.4% and \$23,000 maturing on May 28, 2022 with interest at prime less 2.4%. During the three months ended March 31, 2022, the Company recognized interest income of \$5,177 (March 31, 2021 - \$1,400) of which \$1,480 is from the demand deposit account, and \$3,697 from investment in note receivable (Note 6).

5. INVENTORY //

Inventory consists of finished goods only and is valued at the lower of cost or net realizable value, on a first-in, first-out basis. The cost value for finished goods includes the purchase price, import duties and other directly attributable costs. The Company evaluates the carrying value of inventories on a regular basis, considering such factors as historical and anticipated future sales compared with quantities on hand, the price the Company expects to obtain for products in their respective markets compared with historical cost and the remaining shelf life of goods on hand.

During the three months ended March 31, 2022, total inventory of \$9,781 (March 31, 2021 - \$2,613) was recognized as cost of goods sold.

6. CONVERTIBLE PROMISSORY NOTE RECEIVABLE //

On August 17, 2021, the Company entered into an Exclusive Right of First Negotiation Agreement with reVision Therapeutics, Inc. ("reVision") and invested \$503,840 (US\$400,000) through reVision's open convertible note offering. reVision is a privately-held, early-stage biopharmaceutical company focused on the development and commercialization of innovative therapies for ocular and rare diseases.

The convertible note bears interest at 3% annually. The interest is not compounded, and any interest accrued on the outstanding balance is due on conversion or redemption at maturity. The promissory note has a conversion price of 80% of price per share of the next financing. The option to settle the convertible note in common shares of reVision represents an embedded derivative in the form of a call option to the Company. reVision is a private company, and its shares cannot be reliably valued using any market-derived indicators. Accordingly, the derivative asset is recognized by the Company at \$nil value.

The Company recognized the convertible promissory note at the present value, with a corresponding adjustment to gain in fair value of convertible promissory note.

The convertible note is measured at fair value. The convertible note receivable from reVision was recorded at the principal face amount of US\$400,000 plus accrued interest of \$9,417 at March 31, 2022 (March 31, 2021 - \$nil). The carrying amount is valued at cost and at March 31, 2022 is \$509,257 (December 31, 2021 - \$512,840).

As at March 31, 2022, the Company has determined that there was no evidence of any impairment in the value of this investment, and as a result, no adjustment was considered necessary in its carrying value.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

(Unaudited, Expressed in Canadian dollars)

7. RIGHT-OF-USE LEASE ASSET //

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

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

| | \$ |
|--|---------|
| Cost: | |
| Balance at January 1, 2019, on adoption of IFRS 16 | 588,806 |
| Accumulated amortization: | |
| Balance, December 31, 2020 | 239,514 |
| Depreciation | 119,757 |
| Balance, December 31, 2021 | 359,271 |
| Depreciation | 29,939 |
| Balance, March 31, 2022 | 389,210 |
| Net book value: | |
| As of December 31, 2021 | 229,535 |
| As of March 31, 2022 | 199,596 |

8. LEASE LIABILITY //

| | \$ |
|-----------------------------|-----------|
| Balance, December 31, 2020 | 346,477 |
| Interest expense | 27,807 |
| Lease payments | (147,508) |
| Balance, December 31, 2021 | 226,776 |
| Interest expense | 5,129 |
| Lease payments | (37,720) |
| Balance, March 31, 2022 | 194,185 |
| Which consists of: | |
| Current lease liability | 151,801 |
| Non-current lease liability | 42,384 |
| Balance, March 31, 2022 | 194,185 |

On December 1, 2018, the Company renewed the lease agreement for its Vancouver head office premises for five years, expiring November 30, 2023. Pursuant to this renewal, the Company is obligated to pay basic rent of \$12,573 and operating costs, including electricity and related taxes of approximately \$7,570, on a monthly basis. The base annual rent will increase to \$154,560 for the year to end December 31, 2023.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

(Unaudited, Expressed in Canadian dollars)

9. CONVERTIBLE DEBT //

On May 2, 2019, the Company issued convertible debenture units ("Convertible Debenture Unit") of the Company at a price of \$1,000 per Convertible Debenture Unit for proceeds of \$2,348,000. Each Convertible Debenture Unit consisted of one 9.5% unsecured convertible debenture in the amount of \$1,000 and 2,380 warrants. Each Convertible Debenture Unit is convertible at the option of the holder into common shares (each, a "Debenture Share") at \$0.21, with interest payable semi-annually in arrears on June 30 and December 31 of each year and maturing May 2, 2022. The Company issued 5,588,240 warrants pursuant to the debenture financing. Each warrant entitles the holder to purchase one common share at \$0.22 any time up to May 2, 2022.

The fair value of the liability component of the convertible debt was calculated using an imputed interest rate of 15%. The fair value of the liability component was determined to be \$2,120,497, with the residual amount of \$227,503 being allocated to equity. The Company allocated \$79,626 of the equity portion to reserves related to the detachable warrants. The detachable warrants were valued using the Black-Scholes option pricing model.

In relation to the financing, the Company paid \$177,646 in cash commission, \$283,942 in other financing fees and issued 1,173,842 broker warrants. Each broker warrant is exercisable into one common share at \$0.22 until May 2, 2022. The Company recognized \$116,973 as share issuance costs related to the broker warrants, which were valued using the Black-Scholes option pricing model under the following assumptions: a risk-free interest rate of 1.6%, annualized volatility of 90%, an expected life of 3 years, nil dividend yield, \$0.22 exercise price and a \$0.185 share price. The costs associated with issuing the convertible debt totaled \$578,561, and was allocated to the liability and equity component on a prorated basis of the convertible debt.

For the three months ended March 31, 2022, the Company recorded \$47,037 of finance and interest expense and \$58,976 in accretion expense (March 31, 2021 - \$59,380 and \$57,484, respectively) related to the convertible debt.

A continuity schedule of the convertible notes is as follows:

| | \$ |
|----------------------------|-----------|
| Balance, December 31, 2020 | 1,954,447 |
| Conversion | (263,708) |
| Accretion expense | 236,674 |
| Balance, December 31, 2021 | 1,927,413 |
| Accretion expense | 58,976 |
| Balance, March 31, 2022 | 1,986,389 |

10. CEBA LOAN //

The Company was approved for a \$40,000 COVID-19 response loan via the Canada Emergency Business Account Program (the "CEBA Loan"). The repayment deadline for CEBA loans to qualify for partial loan forgiveness has been extended to December 31, 2023, for all eligible borrowers in good standing.

If the loan is not repaid by December 31, 2023, the loan will be converted to a 2-year term loan at an interest rate of 5%. A partial CEBA Loan forgiveness of \$10,000 applies if repaid in full by December 31, 2023. The CEBA Loan was recognized at its fair value of \$20,800. The fair value of the loan was discounted using an interest rate of 15%. During the three months ended March 31, 2022, accretion expense of \$915 (March 31, 2021 - \$796) was recorded relating to the CEBA Loan. The Company anticipates repaying the CEBA Loan prior to December 31, 2023. The fair value of the CEBA Loan as at March 31, 2022 is \$27,002.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

(Unaudited, Expressed in Canadian dollars)

11. RELATED PARTY DISCLOSURE //

[a] Transactions with related parties

Related parties include members of the Board of Directors and officers of the Company, and enterprises controlled by these individuals.

Amounts due to related parties, including amounts due to key management personnel, at the year-end are unsecured and interest-free, and settlement generally occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Included in accounts payable and accrued liabilities at March 31, 2022 were amounts totaling \$77,504 (December 31, 2021 - \$44,388) due to key management personnel.

The following fees and expenses were incurred:

| | Three Months Ended March 31, 2022 \$ | Three Months Ended March 31, 2021 \$ |
|----------------------|---|---|
| Management | 147,027 | 156,638 |
| Share-based payments | 12,112 | 64,729 |
| Total | 159,139 | 221,367 |

[b] Key management compensation

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

| | Three Months Ended March 31, 2022 \$ | Three Months Ended March 31, 2021 \$ |
|---|--|--|
| Management, wages and related, General administration | 87,027 | 96,638 |
| Management, wages and related, Sales and marketing | 60,000 | 60,000 |
| Share-based payments, General administration | 11,550 | 58,687 |
| Share-based payments, Sales and marketing | 562 | 6,042 |
| Total | 159,139 | 221,367 |

[c] Other

The Company charges office lease expenditures to Northview Lifesciences, a company with a common management and director, and Fehr & Associates, a company with common management. During the three months ended March 31, 2022, office lease expenditures and operating costs billed to Northview Lifesciences and Fehr & Associates amounted to \$2,160 and \$12,923 (March 31, 2021 - \$2,160 and \$12,923), respectively.

12. SHARE CAPITAL //

[a] Preferred shares

The authorized share capital of the Company consists of an unlimited number of Class A preferred shares without par value. As of March 31, 2022 and December 31, 2021, there were no preferred shares issued and outstanding.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021
(Unaudited, Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[b] Common shares

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

There were no common share transactions during the three months ended March 31, 2022.

During the year ended December 31, 2021:

- i. Convertible Debenture Units were converted into 1,390,475 common shares at a conversion price of \$0.21 per common share for a total amount of \$292,000, and \$4,805 of accrued interest was paid.
- ii. On February 26, 2021, the Company closed a private placement of 6,666,666 units at a price of \$0.15 per unit, for proceeds of \$1,000,000, to Marc Lustig, a director of the Company. Each unit consists of one common share and one-half of one warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.25 for 24 months.
- iii. The Company issued 12,343,750 shares at \$0.12 per share pursuant to the exercise of warrants for net proceeds of \$1,481,250.
- iv. The Company issued 317,000 shares at \$0.22 per share pursuant to the exercise of warrants for net proceeds of \$69,740.

[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, 2020 | 21,212,240 | 0.15 |
| Issued | 3,333,333 | 0.10 |
| Exercised | (12,660,750) | (0.18) |
| Expired | (3,281,250) | (0.05) |
| Balance, December 31, 2021 and March 31, 2022 | 8,603,573 | 0.23 |

| Date of Expiry | Number of Warrants Outstanding | Exercise Price \$ |
|----------------------------|-----------------------------------|----------------------|
| May 2, 2022 ⁽¹⁾ | 5,270,240 | 0.22 |
| February 26, 2023 | 3,333,333 | 0.25 |
| Balance, March 31, 2022 | 8,603,573 | |

⁽¹⁾ Subsequent to March 31, 2022, these warrants expired unexercised.

The remaining life of the common share purchase warrants as of March 31, 2022 is 0.41 (December 31, 2021 - 0.65) years.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021
(Unaudited, Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[d] Broker warrants

At December 31, 2021 and March 31, 2022, 1,173,842 broker warrants with an exercise price of \$0.22 and an expiry date of May 2, 2022 were outstanding. The remaining life of the broker warrants at March 31, 2022 is 0.09 (December 31, 2021 - 0.33) years. Subsequent to March 31, 2022, these 1,173,842 warrants expired unexercised.

[e] Compensation warrants

During the year ended December 31, 2020, the Company issued 781,250 compensation warrants ("Compensation Warrants") with an exercise price of \$0.08. Each compensation warrant entitles the agent to purchase one unit at a price of \$0.08 for 36 months, with each unit consisting of one common share and one-half of one warrant (each whole common share purchase warrant, a "Broker Warrant"). At March 31, 2022 and December 31, 2021, there were 781,250 compensation warrants outstanding with an expiry date of August 6, 2023.

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

[f] Stock options

On December 10, 2014, the Company adopted a stock option plan (the "Stock Option Plan") providing the granting of options to employees, officers, directors, consultants and scientific advisory board members. The Stock Option Plan was subsequently amended on February 4, 2015 to meet the listing requirements of the Exchange. On June 15, 2015, August 19, 2016, June 12, 2017 and June 26, 2019, the Company further amended its Stock Option Plan (the "Amended and Restated Stock Option Plan").

The maximum number of common shares issuable under the Amended and Restated Stock Option Plan is fixed at 16,000,000 common shares. Under the Amended and Restated Stock Option Plan, the maximum number of common shares that may be optioned in favor of any single individual will not exceed 5% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be optioned in favor of directors and senior officers under the Amended and Restated Stock Option Plan is 10% of the issued and outstanding common shares at the date of grant. The options can be granted for a maximum term of 10 years.

During the three months ended March 31, 2022, the Company recorded share-based payments of \$19,651 (March 31, 2021 - \$94,168) related to stock options that vested in the period. The fair value of 15,000 stock options granted during the three months ended March 31, 2022 (March 31, 2021 - 545,000) is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---------------------------------|---|---|
| Risk-free interest rate | 2.07% | 0.77% |
| Estimated annualized volatility | 91.60% | 92.14% |
| Expected life | 8 years | 8 years |
| Expected dividend yield | 0% | 0% |

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021
(Unaudited, Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[f] Stock options (continued)

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

| | Number | Weighted Average Exercise Price \$ |
|----------------------------|-------------|--|
| Balance, December 31, 2020 | 9,974,337 | 0.21 |
| Expired | (1,505,000) | (0.30) |
| Granted | 785,000 | 0.16 |
| Balance, December 31, 2021 | 9,254,337 | 0.19 |
| Granted | 15,000 | 0.11 |
| Balance, March 31, 2022 | 9,269,337 | 0.19 |

| Date of Expiry | Exercise Price \$ | Number of Options Outstanding | Number of Options Exercisable |
|-------------------|----------------------|----------------------------------|----------------------------------|
| August 21, 2022 | 0.13 | 250,000 | 250,000 |
| October 13, 2022 | 0.12 | 500,000 | 500,000 |
| December 18, 2022 | 0.55 | 350,000 | 350,000 |
| March 6, 2023 | 0.55 | 350,000 | 350,000 |
| July 9, 2023 | 0.57 | 150,000 | 150,000 |
| April 21, 2024 | 0.47 | 140,000 | 140,000 |
| July 22, 2024 | 0.35 | 150,000 | 150,000 |
| December 6, 2025 | 0.20 | 1,130,000 | 1,130,000 |
| April 16, 2026 | 0.25 | 30,000 | 30,000 |
| November 6, 2026 | 0.18 | 800,000 | 800,000 |
| February 1, 2027 | 0.18 | 600,000 | 575,000 |
| February 14, 2028 | 0.13 | 450,000 | 425,000 |
| June 4, 2028 | 0.09 | 1,124,337 | 1,124,337 |
| August 23, 2028 | 0.13 | 1,000,000 | 500,000 |
| December 8, 2028 | 0.11 | 1,445,000 | 897,500 |
| January 8, 2029 | 0.10 | 180,000 | 180,000 |
| January 25, 2029 | 0.14 | 15,000 | 15,000 |
| February 15, 2029 | 0.23 | 350,000 | 262,500 |
| November 12, 2029 | 0.12 | 240,000 | 60,000 |
| March 14, 2030 | 0.11 | 15,000 | 15,000 |
| Total | 0.19 | 9,269,337 | 7,904,337 |

As of March 31, 2022, the weighted average remaining life for outstanding options was 4.75 (March 31, 2021 - 5.18) years.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

(Unaudited, Expressed in Canadian dollars)

13. OPERATING EXPENSES //

[a] Research and development expenses

| | Three Months Ended March 31, 2022 \$ | Three Months Ended March 31, 2021 \$ |
|---|---|---|
| Consulting | - | 80,284 |
| Development costs | 246,107 | 7,528 |
| Patent and intellectual property protection | - | 86 |
| Total | 246,107 | 87,898 |

[b] Sales and marketing expenses

| | Three Months Ended March 31, 2022 \$ | Three Months Ended March 31, 2021 \$ |
|---------------------------------------|---|---|
| Management, wages, and related | 15,000 | 15,000 |
| Consulting | - | 5,855 |
| Advertising and promotion | 37,383 | 50,556 |
| Printing and other | 23,665 | 22,150 |
| Sales force and related sales support | 381,465 | 336,330 |
| Travel and accommodation | 27,103 | 2,661 |
| Depreciation and amortization | 1,733 | 2,225 |
| Share-based payments (Note 12) | 2,783 | 43,053 |
| Total | 489,132 | 477,830 |

[c] General and administration expenses

| | Three Months Ended March 31, 2022 \$ | Three Months Ended March 31, 2021 \$ |
|---|---|---|
| Management, wages, and related | 144,420 | 152,919 |
| Consulting | 30,500 | 73,828 |
| Interest | 52,166 | 67,382 |
| Legal and professional fees | 46,926 | 22,530 |
| Office and general | 63,646 | 68,240 |
| Travel and accommodation | 5,026 | 7,889 |
| Regulatory and transfer agent fees | 26,446 | 14,994 |
| Accretion (Notes 9 and 10) | 59,891 | 58,280 |
| Depreciation of right-of-use lease asset (Note 7) | 29,939 | 29,939 |
| Share-based payments (Note 12) | 16,868 | 51,115 |
| Total | 475,828 | 547,116 |

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

(Unaudited, Expressed in Canadian dollars)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT //

Fair value

The Company's financial instruments at March 31, 2022 include cash and cash equivalents, amounts receivable, convertible promissory note, accounts payable, accrued liabilities, convertible debt and CEBA Loan. The fair values of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

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

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

The fair value of cash and cash equivalents is based on Level 1 inputs, and the fair value of the liability component of convertible debt is based on Level 2 inputs. The fair values of the convertible debt and CEBA Loan at issuance were determined using Level 2 inputs. The fair value of the convertible note receivable was determined using Level 3 inputs.

[a] Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises for the Company from its cash and cash equivalents and amounts receivable.

The Company has adopted practices to mitigate the deterioration of principal, to enhance the Company's ability to meet its liquidity needs and to optimize yields within those parameters. These investment practices limit the investing of excess funds to liquid term deposits or cashable guaranteed investment certificates with banks and government guaranteed securities with maturities of one year or less.

[b] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. As of March 31, 2022, the Company had working capital of \$241,331 (December 31, 2021 - \$1,135,907).

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the three months ended March 31, 2022 and 2021
(Unaudited, Expressed in Canadian dollars)*

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[c] Market risk

i. Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in the market interest rates. The Company is not exposed to significant cash flow fluctuations due to interest rate changes on its convertible notes, as these bear interest at a fixed rate of 9.5%. As such, fluctuations in the market interest rates during the three months ended March 31, 2022 and year ended December 31, 2021 had no significant impact on its interest income.

ii. Currency risk

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

As at March 31, 2022, the Company had the cash and cash equivalents of \$1,283 (December 31, 2021 - \$1,283) denominated in US dollars.

As at March 31, 2022, the Company had the accounts payable of €48,970 (December 31, 2021 - €nil) denominated in euros and \$315 (December 31, 2021 - \$10,254) denominated in US dollars.

[d] Capital disclosure

The Company's objective when managing capital is to ensure its ability to continue as a going concern in order to pursue the development of its product candidates for ultimate sale or out-licensing. The Company attempts to maximize return to shareholders by minimizing shareholder dilution and, when possible, utilizing non-dilutive funding arrangements, such as collaborative partnership arrangements.

The Company defines its capital as share capital, reserves and convertible debentures. The Company has financed its capital requirements primarily through share and warrant issuances since inception.

The Company manages its capital structure and adjusts it considering changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements. Other than the issuance of convertible debentures, there were no changes to the Company's approach to capital management during the three months ended March 31, 2022 and year ended December 31, 2021.

AEQUUS PHARMACEUTICALS INC.

// NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

(Unaudited, Expressed in Canadian dollars)

15. SEGMENTED DISCLOSURE //

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

The Company received revenues from the sale of dry eye products and by providing promotional services to sell third party owned products, namely Tacrolimus IR and Vistitan. Over 86% (March 31, 2021 - 96%) of its generated revenues are from one arm's length customer. The Company operates in one geographical segment, being the Canadian market.

For the three months ended March 31, 2022, the Company had revenues of \$262,520 and \$39,760 for promotional services and dry eye products sales, respectively.

At March 31, 2022, the Company has dry eye product inventory in the amount of \$129,706 (December 31, 2021 - \$139,826).

16. SUBSEQUENT EVENT //

Subsequent to March 31, 2022, for the purpose of a short-term financing to repay the existing convertible debentures that matured May 2, 2022, the Company entered into an agreement with Doug Janzen, Chairman and Chief Executive Officer of the Company, for an unsecured demand loan of \$2,000,000 (the "Loan"). The Loan bears interest at an annual rate of 2.5%, to be calculated and paid monthly, and is repayable on demand.