

WPD Pharmaceuticals Inc.
(formerly Westcot Ventures Corp.)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
WPD Pharmaceuticals Inc. (formerly Westcot Ventures Corp.)

Opinion

We have audited the accompanying consolidated financial statements of WPD Pharmaceuticals Inc. (formerly Westcot Ventures Corp.) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of \$11,614,212 during the year ended December 31, 2019 and, as of that date, the Company's total deficit was \$12,644,585. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Erez Bahar.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

July 30, 2020

WPD PHARMACEUTICALS INC.
(formerly Westcot Ventures Corp.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT

| | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 2,951,338 | \$ 2,481 |
| Receivables (Note 5) | 221,918 | 3,536 |
| Prepays and deposits | <u>10,583</u> | <u>13,370</u> |
| | 3,183,839 | 19,387 |
| Right of use asset (Note 12) | 60,162 | - |
| Intangible assets (Note 6) | 325,356 | 220,109 |
| Investment (Note 7) | 476,246 | - |
| Equipment (Note 8) | <u>27,031</u> | <u>36,534</u> |
| | <u>\$ 4,072,634</u> | <u>\$ 276,030</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY) | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 609,968 | \$ 394,245 |
| Loans payable (Note 9) | 192,707 | 519,126 |
| Right of use liability (Note 12) | <u>61,804</u> | <u>-</u> |
| | 864,479 | 913,371 |
| Shareholders' equity (deficiency) | | |
| Share capital (Note 11) | 15,833,685 | 1,752 |
| Subscriptions received in advance (Note 11) | - | 404,928 |
| Accumulated other comprehensive income (loss) | 19,055 | (13,648) |
| Deficit | <u>(12,644,585)</u> | <u>(1,030,373)</u> |
| | <u>3,208,155</u> | <u>(637,341)</u> |
| | <u>\$ 4,072,634</u> | <u>\$ 276,030</u> |

Nature and continuance of operations (Note 1)

Commitments (Note 15)

Subsequent events (Note 18)

Approved and authorized by the Board on July 29, 2020.

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

WPD PHARMACEUTICALS INC.
(formerly Westcot Ventures Corp.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Canadian Dollars)

| | 2019 | 2018 |
|---|------------------------|---------------------|
| EXPENSES | | |
| Administration and supplies | \$ 190,070 | \$ 47,125 |
| Consultants | 92,544 | 598,348 |
| Amortization and depreciation (Notes 6, 8, 12) | 100,733 | 9,598 |
| Foreign exchange | 48,291 | 27,913 |
| Interest expense (Notes 9, 12) | 60,661 | 33,038 |
| Lab fees, services, and supplies | 208,299 | - |
| Share-based payments (Notes 6, 10(c)) | 1,962,759 | - |
| Professional fees | 371,206 | - |
| Regulatory, transfer agent and shareholder info | 14,612 | - |
| Salaries (Note 10(b)) | 455,161 | 234,389 |
| Management and director fees (Note 10) | 48,231 | - |
| Taxes and fees | - | 10,884 |
| Transaction fees (Note 4) | <u>9,731,628</u> | <u>-</u> |
| | (13,284,195) | (961,295) |
| Fair value change in investment (Note 7) | 476,246 | - |
| Gain on debt forgiveness (Note 9) | 92,269 | - |
| Other income (Notes 10, 16) | <u>1,101,468</u> | <u>34,201</u> |
| Loss for the year | (11,614,212) | (927,094) |
| Items that will not be reclassified subsequently to profit and loss: | | |
| Translation adjustment | <u>32,703</u> | <u>(10,953)</u> |
| Loss and comprehensive loss for the year | <u>\$ (11,581,509)</u> | <u>\$ (938,047)</u> |
| Basic and diluted loss per common share | \$ (3.40) | \$ (9,271) |
| Weighted average number of common shares outstanding | <u>3,416,527</u> | <u>100</u> |

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

WPD PHARMACEUTICALS INC.
(formerly Westcot Ventures Corp.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Canadian Dollars)

| | 2019 | 2018 |
|--|---------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss for the year | \$ (11,614,212) | \$ (927,094) |
| Items not affecting cash | | |
| Amortization and depreciation | 100,733 | 9,598 |
| Transaction fees | 9,731,628 | - |
| Interest expense | 60,661 | - |
| Fair value change in investment | (476,246) | - |
| Debt forgiveness | (92,269) | - |
| Share-based payments | 1,971,056 | - |
| Non-cash working capital item changes: | | |
| Receivables, prepaids and deposits | 162,316 | (7,693) |
| Accounts payable and accrued liabilities | <u>(14,066)</u> | <u>307,366</u> |
| Net cash used in operating activities | <u>(170,399)</u> | <u>(617,823)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of intangibles | (65,121) | (158,198) |
| Cash acquired through acquisition of Westcot | 2,876,434 | - |
| Acquisition of equipment | <u>-</u> | <u>(40,155)</u> |
| Net cash provided by (used in) investing activities | <u>2,811,313</u> | <u>(198,353)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Lease payments | (64,123) | - |
| Subscriptions received in advance | - | 404,928 |
| Proceeds from loans, net of repayments | <u>445,041</u> | <u>416,720</u> |
| Net cash provided by financing activities | <u>380,918</u> | <u>821,648</u> |
| Effect of foreign exchange on cash | (72,975) | (4,335) |
| Change in cash for the year | 2,948,857 | 1,137 |
| Cash, beginning of year | <u>2,481</u> | <u>1,344</u> |
| Cash, end of year | <u>\$ 2,951,338</u> | <u>\$ 2,481</u> |
| Non-cash investing activities: | | |
| IFRS 16 Adoption (Increase in ROU asset and Lease Liability) | \$ 127,307 | - |
| Shares issued for debt | \$ 303,461 | - |
| Shares issued for subscriptions received in advance | \$ 404,928 | - |
| Conversion of convertible debt | \$ 335,351 | - |
| Acquisition of intangible assets included in accrued liabilities | \$ 126,074 | \$ 65,121 |

No cash was paid for interest or taxes for the periods ended December 31, 2019 and 2018.

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

WPD PHARMACEUTICALS INC.

(formerly Westcot Ventures Corp.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

FOR THE YEARS ENDED DECEMBER 31,

(Expressed in Canadian Dollars)

| Share Capital | | | | | | |
|--|---------------|---------------|--|--|-----------------|--------------|
| | Number | Amount | Subscriptions received in advance | Cumulative translation adjustment | Deficit | Total |
| Balance, December 31, 2017 | 100 | \$ 1,752 | \$ - | \$ (2,695) | \$ (103,279) | \$ (104,222) |
| Funds received in advance | - | - | 404,928 | - | - | 404,928 |
| Comprehensive loss for the year | - | - | - | (10,953) | (927,094) | (938,047) |
| Balance, December 31, 2018 | 100 | 1,752 | 404,928 | (13,648) | (1,030,373) | (637,341) |
| Shares for subscriptions received in advance (Note 11) | 600 | 404,928 | (404,928) | - | - | - |
| Shares for debt (Note 9) | 17,079 | 303,461 | - | - | - | 303,461 |
| Eliminate capital stock of WPD (Note 4) | (17,779) | - | - | - | - | - |
| Shares of Westcot on RTO date (Note 4) | 32,120,392 | 11,242,137 | - | - | - | 11,242,137 |
| Conversion of subscription receipts (Note 4) | 7,899,996 | - | - | - | - | - |
| Shares issued to acquire WPD (Note 4) | 60,206,875 | - | - | - | - | - |
| Shares issued as finders' fees (Note 4) | 4,500,000 | 1,575,000 | - | - | - | 1,575,000 |
| Conversion of convertible debt (Note 4) | 1,161,536 | 335,351 | - | - | - | 335,351 |
| Share based payments (Note 4) | 5,631,589 | 1,971,056 | - | - | - | 1,971,056 |
| Comprehensive loss for the year | - | - | - | 32,703 | (11,614,212) | (11,581,509) |
| Balance, December 31, 2019 | 111,520,388 | \$ 15,833,685 | \$ - | \$ 19,055 | \$ (12,644,585) | \$ 3,208,155 |

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

WPD PHARMACEUTICALS INC.

(formerly Westcot Ventures Corp.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

(Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

WPD Pharmaceuticals Inc. (formerly Wescot Ventures Corp.) (the “Company”) was incorporated under the Provincial Laws of British Columbia on July 4, 2006. The Company is listed on the Canadian Securities Exchange (the “Exchange”) under the symbol “WBIO”. The Company is principally engaged in the research and development of innovative medicinal products in the fields of oncology and infectious diseases.

On December 20, 2019, the Company completed the acquisition of WPD Pharmaceuticals (“WPD”), a privately-held research and development company incorporated in Poland under the Code of Commercial Companies on August 21, 2017. The Company acquired all of the issued and outstanding shares of WPD by way of share exchange (the Reverse Takeover Transaction”, the “Transaction” or the “RTO”). The transaction resulted in the shareholders of WPD holding the majority of the Company’s issued and outstanding common shares. Accordingly, the transaction is treated as a reverse takeover and the financial statements represent a continuation of the legal subsidiary, WPD, not the Company, the legal parent (Note 4).

The head office and the registered address of the Company is Suite 1080, 789 West Pender Street, Vancouver, British Columbia, Canada, V6C 1H2.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company incurred a net loss of \$11,614,212 during the year ended December 31, 2019 and, as of that date, the Company had working capital of \$2,319,360. While the Company has been successful in obtaining its required funding in the past, there is no assurance that such future financing will be available or be available on favourable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. These events and conditions, along with those discussed in Note 18(g), indicate that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern.

The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Continued operations of the Company are dependent on the Company’s ability to receive financial support, necessary financings, or generate profitable operations in the future.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements, including comparatives have been prepared using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of Consolidation

The Company’s consolidated financial statements include the accounts of the Company and its subsidiary. The subsidiary is an entity controlled by the Company, where control is achieved by the Company being exposed to, or having rights to, variable returns from its involved with the entity and having the ability to affect those returns through its power over the entity. The subsidiary is fully consolidated from the date on which control is obtained by the Company, and are deconsolidated from the date that control ceases. All inter-company transactions, balances, income and expense are eliminated on consolidation.

2. BASIS OF PREPARATION (cont'd)

Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are carried at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and Presentation Currency

The functional currency of a company is the currency of the primary economic environment in which the company operates. The presentation currency for a company is the currency in which the company chooses to present its financial statements.

These financial statements are presented in Canadian dollars, the Company's presentation currency. The functional currency of the Company is the Canadian dollar, and the functional currency of its subsidiary is the Polish Zloty ("PLN").

Assets and liabilities for each statement of financial position presented (including comparatives) are translated at the closing rate at the date of that statement of financial position. This would include any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as part of the assets and liabilities of the foreign operation;

- Income and expenses for each income statement (including comparatives) are translated at exchange rates approximately at the dates of the transactions; and
- All resulting exchange differences are recognized in other comprehensive income.

Transactions in foreign currencies are translated into the functional currency at exchange rates as at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss. Foreign currency monetary assets and liabilities are translated at the functional currency exchange rate at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using 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 as at the date of acquisition. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

Significant Accounting Judgments and Estimates

The Company makes estimates and judgements about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual results may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions that have been made, relate to the following key estimates and judgements:

2. BASIS OF PREPARATION (cont'd...)

Significant Accounting Judgments and Estimates (cont'd...)

Intangible Assets – cost

Management exercises judgment in determining which payments made under its license agreements qualify as a capitalizable cost under the Company's Intangible Asset policy in accordance with IAS 38. In making this determination management determined that license fees as well as cost reimbursements for maintenance of the patents would be capitalized, while any future royalty payments made under the license agreement are not components of cost.

Intangible Assets – impairment

The application of the Company's accounting policy for intangible asset expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available.

Following initial recognition, the Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on a straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions within the reporting entity.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Recognition of other income

Pursuant to the terms of the Company's grant from the National Centre of Research and Development in Poland, the Company has met certain terms and conditions as detailed in Note 16 to qualify for the grant funding. The Company has therefore recognized in profit or loss, grant payments received in cash, which are reimbursements for expenditures the Company has incurred to date under the grant parameters. Management exercised judgement in determining whether the Company has met the relevant conditions attached to grants received. All such expenses are subject to assessment by National Centre of Research and Development for compliance with the grant regulations which may result in certain expenses being denied.

2. BASIS OF PREPARATION (cont'd...)

Significant Accounting Judgments and Estimates (cont'd...)

Valuation of investment in private company

The Company recognizes its investment at fair value. Fair value is determined on the basis of market prices from independent sources, if available. If there is no market price, then the fair value is determined by using valuation models with inputs derived from observable market data where possible, but where observable data is not available, judgement is required to establish fair values.

There is inherent uncertainty and imprecision in estimating the factors that can affect fair value, and in estimating fair values generally, when observable data is not available. Changes in assumptions and inputs used in valuing financial instruments could affect reported fair values. The Company's investment was valued using Level 2 and Level 3 inputs in fiscal 2019 and 2018 respectively, see Note 7 for details.

3. SIGNIFICANT ACCOUNTING POLICIES

New accounting policy adopted during the year ended December 31, 2019:

Leases

On January 1, 2019, the Company adopted IFRS 16 – Leases (“IFRS 16”) which replaced IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applied in IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets.

The Company applied IFRS 16 using the modified retrospective method. Under this method, financial information will not be restated and will continue to be reported under the accounting standards in effect for those periods. The Company will recognize lease liabilities related to its lease commitments for its premises and equipment leases. The lease liabilities will be measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate as at January 1, 2019, the date of initial application, resulting in no adjustment to the opening balance of deficit. The associated right-of-use assets will be measured at the lease liabilities amount, plus prepaid lease payments made by the Company. The Company has implemented the following practical expedients permitted under the new standard:

- leases of low dollar value will continue to be expensed as incurred; and
- the Company will not apply any grandfathering practical expedients.

As at January 1, 2019, the Company recognized \$127,307 in right-of-use assets and \$127,307 in lease liabilities.

New accounting policy for leases under IFRS 16

The following is the accounting policy for leases as of January 1, 2019 upon adoption of IFRS 16:

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Leases (cont'd...)

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

Financial instruments

Financial assets

The Company classified its financial assets in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI"), or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL; for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

The Company's accounting policy for each of the categories is as follows:

Financial assets at FVTPL: Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of financial assets held at FVTPL are included in the statement of (loss) income in the period.

Financial assets at FVTOCI: Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive (loss) income in they arise.

Financial assets at amortized cost: A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date, and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Impairment of financial assets at amortized cost: The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

The following table shows the classification of the Company's financial assets :

| Financial asset | IFRS 9 Classification |
|-----------------|-----------------------------------|
| Cash | Fair value through profit or loss |
| Receivables | Amortized cost |
| Investment | Fair value through profit or loss |

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

Fair value through profit or loss – This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Other financial liabilities - This category includes accounts payable and accrued liabilities, secured convertible debentures and flow-through obligation, all of which are recognized at amortized cost using the effective interest method.

Transaction costs in respect of financial instruments at fair value through profit or loss are recognized in the statement of operations and comprehensive losses immediately, while transaction costs associated with all other financial instruments are included in the initial measurement of the financial instrument.

The following table shows the classification of the Company's financial liabilities under IFRS 9:

| Financial asset | IFRS 9 Classification |
|--|-----------------------------|
| Accounts payable and accrued liabilities | Other financial liabilities |
| Loans payable | Other financial liabilities |

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Equipment

The Company acquired office and medical equipment for use in its research and business activities. Depreciation has been recognized using the declining balance method at the rate of 20% per annum.

Intangible assets

The Company owns intangible assets consisting of a license agreement for use of patents. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any 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.

The Company does not hold any intangible assets with indefinite lives.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized profit and loss

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, which for patents is generally a period of 20 years.

Impairment of long-lived assets

The Company's long-lived assets are reviewed for indications of impairment at the date of preparing each statement of financial position. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying value of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or group of assets. For the purpose of impairment testing, the Company determined it has one cash-generating unit.

The recoverable amount is the greater of the asset's fair value less cost to sell and value in use. In assessing fair value less cost to sell for the cash-generating unit, the Company's market capitalization is considered.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but not to an amount that would exceed the original carrying amount in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provisions

Provisions are recorded when a present legal, statutory or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Where a provision is measured using the cash flows estimated to settle the present obligation, if the effect is material, its carrying amount is the present value of those cash flows.

Government assistance

Government grants related to income, including grants from similar bodies, are presented as part of profit and loss as other income. Government grants are recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable assurance that the grant will be received.

Research grants that compensate the Company for expenses incurred are recognized in profit or loss on a systematic basis in the same years in which the expenses are recognized. Grants that compensate the Company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

Research and development costs

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Investment tax credits related to current expenditures are included in the determination of net income as the expenditures are incurred when there is reasonable assurance they will be realized.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development 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. These criteria will be deemed by the Company to have been met when revenue is received by the Company and a determination that it has sufficient resources to market and sell its product offerings. Upon a determination that the criteria to capitalize development expenditures have been met, the expenditures capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures will be expensed as incurred.

Capitalized development expenditures will be measured at cost less accumulated amortization and accumulated impairment losses. No development costs have been capitalized to date.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants, and similar instruments is computed using the treasury stock method. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income taxes (cont'd...)

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the asset.

New standards not yet adopted

The Company is not aware of any upcoming accounting pronouncements which would be expected to have a material impact on the financial statements.

4. REVERSE TAKEOVER

On December 20, 2019, pursuant to the terms of the Transaction, the Company acquired all of the outstanding shares of WPD by way of a share exchange. WPD is considered to have acquired the Company with the Transaction being accounted for as a reverse takeover of the Company by WPD in accordance with the guidance provided in IFRS 2, Share-based Payments and IFRS 3, Business Combinations. Accordingly, the consolidated financial statements represent a continuation of WPD, not the Company.

The acquisition constitutes an asset acquisition as the Company does not meet the definition of a business, as defined in IFRS 3, Business Combinations.

As a result of this asset acquisition, a listing expense of \$9,731,628 has been recorded as transaction fees in profit and loss. This reflects the difference between the estimated fair value of the 32,120,392 WPD common shares deemed to have been issued to the Company's shareholders less the fair value of the assets of the company being acquired:

| | |
|---|---------------------|
| Purchase Price | |
| 32,120,392 common shares of the Company at \$0.35 per share | \$11,242,137 |
| 4,500,000 common shares issued as a finders fee | 1,575,000 |
| Total Purchase Price | \$12,817,137 |
| | |
| Allocation of Purchase Price | |
| Cash | \$2,876,434 |
| Receivables | 58,207 |
| Loan receivable from WPD | 306,130 |
| Prepaid expenses | 13,574 |
| Accounts payable and accrued liabilities | (152,873) |
| Interest payable | (15,963) |
| Listing expense | 9,731,628 |
| | \$12,817,137 |

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4. REVERSE TAKEOVER (cont'd...)

In connection to the Transaction, the Company issued a total of 67,000,000 common shares to acquire WPD, as follows: 60,206,875 common shares to former WPD shareholders; 1,161,536 common shares to prior holders of WPD convertible debt (Note 9); 3,792,772 common shares under the terms of the Wake Forest License Agreement (Note 6); 1,815,112 common shares under the terms of the Consideration Agreement described in Note 10(c); and 23,705 common shares for management services (Note 10).

5. ACCOUNTS RECEIVABLE

| | December 31, 2019 | December 31, 2018 |
|-------------------|-------------------|-------------------|
| | | \$ |
| Trade receivables | 61,297 | 3,536 |
| Tax receivables | <u>160,621</u> | <u>-</u> |
| | 221,918 | 3,536 |

Tax receivables are comprised of GST in Canada and Value-added tax (“VAT”) in Poland. Subsequent to December 31, 2019, the Company received a VAT return in cash of PLN 424,989 (\$144,500).

6. INTANGIBLE ASSETS

| | For the year ended December 31, 2019 |
|--|---|
| | \$ |
| Cost | - |
| Balance at January 1, 2018 | - |
| Additions | 223,319 |
| Cumulative translation adjustment | <u>2,373</u> |
| Balance at December 31, 2018 | 225,692 |
| Additions | 126,074 |
| Cumulative translation adjustment | <u>9,819</u> |
| Balance at December 31, 2019 | <u>361,585</u> |
| Amortization | |
| Balance at January 1, 2018 | - |
| Additions | <u>5,583</u> |
| Balance at December 31, 2018 | 5,583 |
| Additions | <u>30,646</u> |
| Balance at December 31, 2019 | <u>36,229</u> |
| Carrying Value as at December 31, 2018 | 220,109 |
| Carrying Value as at December 31, 2019 | 325,356 |

On November 28, 2017 the Company signed a license agreement (“Wake Forest License Agreement”) with Wake Forest University Health Sciences (“WFUHS”) granting the Company an exclusive, worldwide, royalty-bearing license under certain patented and patent-pending technologies for the diagnosis and treatment of glioblastoma multiforme, to make, use, import, offer for sale and sell licensed pharmaceutical products, including the right to sublicense its rights under the Wake Forest License Agreement, subject to WFUHS’ retained right to make, have made, and use licensed products solely for non-commercial, educational, academic, and research purposes. The term of the Wake Forest License Agreement is for the life of the licensed patents.

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6. INTANGIBLE ASSETS (cont'd...)

products solely for non-commercial, educational, academic, and research purposes. The term of the Wake Forest License Agreement is for the life of the licensed patents.

Under the Wake Forest License Agreement, WPD agreed to make an up-front payment of USD\$50,000 (paid) and an annual fee payment of USD\$10,000 during the term of the Wake Forest License Agreement. WPD also agreed to make certain milestones and milestone payments to WFUHS, including payment of the following: (i) USD\$75,000 upon filing the first investigational new drug application with the U.S. Food and Drug Administration (or non-U.S. major

market equivalent); (ii) USD\$150,000 upon enrolling the first patient in the first clinical trial that is designed to study efficacy and longer term safety of a product licensed under the Wake Forest License Agreement; and (iii) USD\$750,000 upon first commercial sale of a licensed product in a Major Market (as defined in the Wake Forest License Agreement) in which the licensed product is covered by a valid claim of a licensed patent.

WPD is also subject to numerous royalty payments under the agreement, which arise under various conditions such as the sale of a licensed product, and/or sublicense revenue being received. WPD also agreed to reimburse WFUHS for expenses incurred related to the licensed payments with 6 equal payments of USD\$47,880 due April 1 and October 1 of each year (the first such payment has been made, the second accrued in liabilities as at December 31, 2018 and the third and fourth accrued in liabilities as at December 31, 2019).

In addition, as part of the consideration under the Wake Forest License Agreement, WPD agreed that, on the date that WPD completes the issuance and sale of equity, equity-linked, or convertible debt securities for cumulative gross proceeds of at least USD\$2,000,000, WPD shall issue to WFUHS shares of its common stock, such that WFUHS will hold, in aggregate, 6.0% of WPD's outstanding common stock calculated on a fully diluted basis. These shares were issued upon completion of the Transaction, in total 3,792,772 common shares were issued (Note 4) with a value of \$1,327,470 expensed to profit and loss as share-based payments.

On October 10, 2018 the Company entered into an agreement with Animal Life Sciences Inc. (formerly Animal Life Sciences, LLC) ("ALS") to sublicense patent rights obtained under the WFUHS agreement. In consideration for sublicensing these rights, WPD received 418,750 common shares in ALS initially valued at \$Nil. See Note 7 for details regarding these ALS shares.

7. INVESTMENT

Animal Life Sciences was formed as a limited liability company in the State of Nevada on August 22, 2018. In June 2019, ALS converted from an LLC to a "C Corporation" under the US Tax code and changed its name to Animal Life Sciences Inc. ALS is considered a related party as its controlling shareholder is also a founding shareholder of the Company.

At December 31, 2018, the Company determined that because ALS had no operations and no significant identifiable assets, the fair value of its investment was \$Nil, based on these Level 3 inputs.

In fiscal 2019, ALS completed an equity financing which valued ALS at USD \$6 million. At that time, the Company's shares amounted to a 6.1% position in the Company which implies a valuation of \$476,246. This is considered a Level 2 input. As there were no further observable inputs during the year, this financing was determined to be the most reliable indicator of fair value as at December 31, 2019. In connection, the Company recorded a fair value change of \$476,246 in profit and loss.

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8. EQUIPMENT

| | \$ |
|--|---------------|
| Cost | |
| Balance at January 1, 2018 | - |
| Additions | 40,155 |
| Cumulative translation adjustment | 394 |
| Balance at December 31, 2018 and December 31, 2019 | <u>40,549</u> |
| Depreciation | |
| Balance at January 1, 2018 | - |
| Additions | 4,015 |
| Balance at December 31, 2018 | <u>4,015</u> |
| Additions | 9,503 |
| Balance at December 31, 2019 | <u>13,518</u> |
| Carrying Value as at December 31, 2018 | 36,534 |
| Carrying Value as at December 31, 2019 | <u>27,031</u> |

9. LOANS PAYABLE

Short-Term Loans

The Company has received loans from various private lenders, including a related party (Note 10). The loans are short-term, bear interest rates of 10% per annum and are unsecured. In total, \$261,450 such loans were received under multiple agreements during the 2019 fiscal year (2018 - \$416,720).

During the year ended December 31, 2019, WPD signed multiple agreements to convert such loans into common shares of WPD (prior to the Transaction described in Note 4). In total, 17,079 common shares of WPD were issued under such agreements, in exchange for settlement of \$303,461 of loans. An additional \$92,269 in loans were forgiven in connection with debt conversion agreements.

Convertible Debt

During the year ended December 31, 2019, WPD also issued \$335,351 in convertible loans (2018 - \$Nil) under multiple agreements. These loans are short term, bear interest rates of 10% per annum and are unsecured. They were convertible into shares of the Company at \$0.30 per share, and upon completion of the Transaction (Note 4) were all converted into a total of 1,161,536 common shares of the Company.

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9. LOANS PAYABLE (cont'd...)

Loan payable movement during the year was as follows:

| | For the year ended December 31, | |
|-----------------------------|--|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Opening balance | 519,126 | 97,066 |
| Loans received | 596,801 | 416,720 |
| Interest expense | 55,469 | 32,114 |
| Repayments | (151,760) | - |
| Debt forgiveness | (92,269) | - |
| Conversion to common shares | (638,812) | - |
| Foreign exchange | (95,848) | (26,774) |
| Ending Balance | 192,707 | 519,126 |

10. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Board and corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer.

Key management compensation for the year ended December 31, 2019 was as follows:

| | For the year ended December 31, | |
|--|--|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Salaries (CEO) | 42,000 | 43,000 |
| Management fees (CFO) | 37,000 | - |
| Share-based compensation within management fees (CFO) – 23,705 common shares issued | 8,297 | - |

During the years ended December 31, 2019 and 2018, the Company also had the following transactions with related parties:

a) Related Party Loans (See Note 9 for details)

During the year ended December 31, 2018, USD\$305,000 of loans payable were extended by a controlling shareholder of WPD, with the terms of these loans described in Note 9. As of December 31, 2019, this shareholder is no longer considered a related party of the Company.

10. RELATED PARTY TRANSACTIONS (cont'd...)

b) CNS Agreements

On August 30, 2018, WPD entered into a sublicense agreement (the “CNS Sublicense Agreement”) with CNS Pharmaceuticals, Inc. (“CNS Pharma”). In connection, the Company is committed to spend at least US \$2 million on the development, testing, regulatory approval, or commercialization of the products governed under the CNS License Agreement by August 30, 2021.

To date the Company has not yet submitted any expenditures for formal approval under its commitments.

CNS Pharma is a related party due to its founder and controlling shareholder being a significant shareholder of the Company.

On January 29, 2019, the Company signed a Consulting Agreement with CNS Pharma, under which the Company sub-contracted an employee to CNS Pharma for compensation of USD 5,000 per month for a term of twelve months. Amounts received under this agreement are included within Other Income in profit and loss. Subsequent to December 31, 2019, the Company signed a Development Agreement with CNS Pharma (Note 18).

c) Moleculin Sublicense Agreement

On February 19, 2019, the Company entered into a sublicense agreement (the “Moleculin Sublicense Agreement”) with Moleculin Biotech, Inc. (“Moleculin”), under which Moleculin sublicensed certain intellectual property rights to WPD, including rights to certain products. Moleculin retains the right to buy back these rights from the Company by making a cash payment of USD \$500,000 or by issuing 235,850 shares of its common stock. In consideration for sublicensing rights provided, the Company agreed to make expenditure of at least: (i) USD \$2,500,000 during the first two years of the agreement on the research, development and commercialization of products in the licensed territories, and (ii) USD \$1,000,000 annually for the two years thereafter on the research and development of products in the licensed territories.

To date the Company has not yet submitted any expenditures for formal approval under its commitments.

Moleculin is a related party due to its founder and largest shareholder being a significant shareholder of the Company.

On July 30, 2019, the Company signed a Consideration Agreement with Exploration Invest Pte. Ltd. (“Exploration”), who is party to license agreements with Moleculin. Under the Consideration Agreement, Exploration agreed to cede certain territorial rights, amend certain rights under its own license agreements with Moleculin, and release WPD from liability under those rights. In consideration, WPD agreed to issue 536 common shares to Exploration. This commitment was settled via the issuance of 1,815,112 post-Transaction Shares (Note 4), with a value of \$635,289, expensed to profit and loss as share-based payments.

d) ALS Sub-license Agreement and Related Investment

Refer to Notes 6 and 7 for details.

11. SHAREHOLDERS' EQUITY (DEFICIENCY)

Authorized

The Company is authorized to issue an unlimited number of voting common shares without par value.

Issued share capital

As at December 31, 2019, the Company has 111,520,388 (December 31, 2018 – 100) common shares issued and outstanding.

There were no share issuances during the year ended December 31, 2018.

On April 11, 2019, WPD issued 600 common shares in connection with subscriptions received in advance in the amount of \$404,928. A further 17,079 common shares were issued in connection to debt settlements (Note 9), with a value of \$303,461.

On December 20, 2019, the Company completed the Transaction (Note 4). In connection, the Company legally acquired the 17,779 outstanding shares of WPD, in exchange for 60,206,875 common shares (Note 4) and issued 4,500,000 common shares as a finder's fee (See Note 4). The Company had 32,120,392 common shares issued and outstanding at the date of the Transaction. In addition, on completion of the Transaction, the Company converted 7,899,996 subscription receipts into one unit of the Company for every subscription receipt held. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant will entitle the holder to obtain one additional common share of the Company at a price of \$0.50 for a period of 24 months from the date of issue.

Stock Options

The Company adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees, and consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Stock options and charitable options will be exercisable for a year of up to 10 years from the date of grant.

In connection with the foregoing, the number of common shares reserved for issuance to any individual director or officer will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all consultants will not exceed two percent (2%) of the issued and outstanding common shares. Vesting will be determined at the discretion of the Board for each grant. Options may be exercised no later than 90 days, or, in the case of an optionee providing investor relations activities, the 30th day following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or consulting arrangement was by reason of death, the option may be exercised within a maximum year of six months after such death, subject to the expiry date of such option.

There were no stock option transactions during the years ended December 31, 2019 and 2018, and no stock options outstanding at December 31, 2019 and 2018.

Subsequent to the year ended December 31, 2019, the Company approved the adoption of a new stock option plan and granted stock options under the new plan (Note 18).

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11. SHAREHOLDERS' EQUITY (cont'd...)

Warrants

The following table summarizes the Company's warrant activity the year ended December 31, 2019:

| | Number of Warrants | Weighted Average Exercise Price |
|--|-----------------------|---------------------------------------|
| Outstanding, December 31, 2018, and 2017 | - | \$ 0.50 |
| Issued | <u>3,949,998</u> | 0.50 |
| Outstanding, December 31, 2019 | <u>3,949,998</u> | <u>\$ 0.50</u> |

As at December 31, 2019, the Company had 3,949,998 warrants outstanding and exercisable at \$0.50 per warrant until December 20, 2021.

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12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-use Assets

| | Premises and Equipment |
|--|-----------------------------------|
| Cost: | |
| At December 31, 2018 | \$ - |
| Right-of-use asset recognized on January 1, 2019 on initial adoption of IFRS 16 (Note 2) | 127,307 |
| Cumulative translation adjustment | (6,561) |
| At December 31, 2019 | <u>120,746</u> |
| Depreciation: | |
| At December 31, 2018 | \$ - |
| Depreciation | <u>60,584</u> |
| At December 31, 2019 | <u>60,584</u> |
| Net book value: | |
| At December 31, 2018 | \$ - |
| At December 31, 2019 | \$ 60,162 |

The Company has right-of-use-assets and lease liabilities for leased office space and medical equipment. The incremental borrowing rate for the Company at January 1 and through December 31, 2019 was 10%. For equipment leases, the interest rate implicit in the lease was 3.06%.

Depreciation of right-of-use assets is calculated using the straight-line method over the remaining lease term.

Right-of-use Liabilities:

| | |
|--|---------------|
| Lease liabilities recognized as at January 1, 2019 | \$ 127,307 |
| Lease payments | (64,123) |
| Interest expense | 5,192 |
| Cumulative translation adjustment | (6,572) |
| At December 31, 2019 | 61,804 |

The remaining lease payments are all due within 12 months, and therefore the entire balance is classified as current on the statement of financial position.

The Company expensed \$5,711 in lease payments to profit and loss relating to low value or short term leases.

13. SEGMENT INFORMATION

The Company operates in one reportable operating segment, being the research and development of innovative medicinal products in the fields of oncology and infectious diseases. All of the Company's long-lived assets are located in Poland.

14. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) 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., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of receivables and accounts payable and accrued liabilities approximates fair value due to the short term nature of the financial instruments. Cash is valued at a level 1 fair value measurement. Investments are measured at fair value using Level 2 inputs. During the year ended, December 31, 2019, \$476,246 were transferred from Level 3 to Level 2, refer to Note 7 for relevant disclosures surrounding inputs.

Risk management

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and receivables. The Company's receivables are primarily due to trade receivables and value added taxes. The Company limits its exposure to credit loss by placing its cash with major financial institutions. Credit risk with respect to value added taxes is minimal as the amounts are due from government agencies.

The Company has no investment in asset backed commercial paper.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2019, the Company had working capital of \$2,319,360. The Company does not generate revenue aside from government research grants and will be reliant on external financing to fund operations and repay the debt. Debt and equity financing are dependent on market conditions and may not be available on favorable terms.

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 commodity and equity prices.

14. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)

Risk management (cont'd)

a) Interest rate risk

As at December 31, 2019, the Company has cash balances which are interest bearing. Interest income is not significant to the Company's projected operational budget and related interest rate fluctuations are not significant to the Company's risk assessment.

The Company's loans payable (prior to being settled in 2019) were interest-bearing debt at a fixed rate and therefore not subject to interest rate risk.

b) Foreign currency risk

The Company's foreign currency risk exposure relates to net monetary assets denominated in Polish Zloty. A 10% change in the foreign exchange rate between the Canadian and Polish Zloty would result in a fluctuation of \$187,000 (2018 - \$10,000) in the comprehensive loss for the year. The Company does not currently engage in hedging activities.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Capital management

The Company considers its capital to include working capital, loan payable and the components of shareholders' equity (deficiency). The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms. Future financings are dependent on market conditions and the ability to identify sources of investment. There can be no assurance the Company will be able to raise funds in the future. There were no changes to the Company's capital management strategy during the year, and no externally imposed requirements.

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15. COMMITMENTS

The Company has made the following commitments:

- The Company is subject to multiple future payments under the terms of the Wake Forest License Agreement outlined in detail in Note 6. Some of these are fixed payments, some are dependent on future milestones or events as outlined in Note 6;
- The Company is subject to spending commitments outlined in the Moleculin Sublicense Agreement, see Note 10 for details.
- The Company is subject to spending commitments outlined in the CNS Sublicense Agreement, see Note 10 for details.
- The Company is party to two cost sharing agreements with Warsaw University for shared usage of space and medical equipment.
 - The premises agreement extends to June 30, 2021 and 2022 for usage of a seminar room and office respectively; at a rate of PLN 3,141 and PLN 90 / square meter plus applicable value added tax (“VAT”) respectively.
 - The equipment agreement extends to August 31, 2020 in the amount of PLN 24,600 per month plus applicable VAT.
- The Company is party to a lease agreement with Wroclaw Technology Park for laboratory infrastructure. The company will lease a laboratory room for PLN 95 per square meter plus applicable VAT. The original term of the agreement was from December 3, 2018 to December 3, 2020, however the lab has not yet been made available to the Company and therefore no payments have been made or accrued to date.

16. OTHER INCOME

The Company’s other income relates to funds received from government grants in the amount of \$1,049,440 (2018 - \$34,201) and \$52,028 (2018 - \$Nil) from a consulting agreement with CNS described in Note 10.

Government grants

On February 20, 2018 the Company received notice it had been awarded a grant (the “WP101 Grant”) in the amount of 21,400,477 PLN from the European Union, European Regional Development Fund under the Smart Growth Operational Programme, implemented under the National Center for Research and Development (the “NCRD”) for development of its drug used in the treatment of glioblastoma multiforme (“GBM”).

Receiving the WPD101 Grant from NCRD is subject to a number of conditions including: Polish and EU regulation for small and medium enterprises (SME) and Polish and EU grant regulation. There can be no assurances that the Company will continue to meet the necessary conditions of the NCRD, satisfactorily achieve milestones, or that NCRD will continue to advance additional funds to the Company.

If the Company is found to have used any grant proceeds for purposes other than intended, is in violation of the terms of the grant, then the Company is required to repay any grant proceeds received with interest.

On January 31, 2019, the Company received notice that it had been awarded a grant (the “WPD104 Grant”) in the amount of 22,033,066 PLN from the European Union, the European Regional Development Fund under the Smart Growth Operational Programme, implemented under the NCRD for development of its drug berubicin hydrochloride for injection as a novel drug in GBM therapy for children and adults patients.

Receiving the WPD104 Grant from NCRD is subject to a number of conditions including: Polish and EU regulation for small and medium enterprises (SME) and Polish and EU grant regulation. There can be no assurances that the Company will continue to meet the necessary conditions of the NCRD, satisfactorily achieve milestones, or that NCRD will continue to advance additional funds to the Company.

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16. OTHER INCOME (cont'd)...

During the year ended December 31, 2019, the Company received and recognized \$1,049,440 (Year ended December 31, 2018 the Company received and recognized \$34,201) in other income associated with amounts received for the WP101 and WP104 grants as management believes they have satisfied all conditions related to this income. As at December 31, 2019, the Company has not received any additional funding under the either grant which has not been recognized into profit and loss due to unfulfilled conditions or other contingencies.

17. DEFERRED INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

| | 2019 | 2018 |
|---|------------------|------------------|
| Loss for the year before income tax | \$ (11,614,212) | \$ (938,047) |
| Expected income tax recovery | \$ 3,136,000 | \$ 178,229 |
| Change in statutory, foreign tax, foreign exchange rates, and other | (144,000) | - |
| Permanent differences | (2,631,000) | - |
| Share issue costs | 5,000 | - |
| Change in unrecognized deductible temporary differences | <u>(366,000)</u> | <u>(178,229)</u> |
| Total income tax (recovery) | \$ - | \$ - |

The significant components of the Company's unrecognized temporary tax differences are as follows:

| | 2019 | Expiry Date Range | 2018 | Expiry Date Range |
|---|------------------|-------------------|------------------|-------------------|
| Temporary Differences | | | | |
| Property and equipment | 18,000 | No expiry date | - | N/A |
| Share issue costs | 14,000 | 2040 to 2043 | - | N/A |
| Intangible assets | 36,000 | No expiry date | - | N/A |
| Non-capital losses available for future periods | <u>2,880,000</u> | <u>See below</u> | <u>1,043,000</u> | <u>See below</u> |
| Canada | 11,000 | 2039 | - | N/A |
| Poland | 2,869,000 | 2022 to 2024 | 1,043,000 | 2022 to 2023 |

Tax attributes are subject to review, and potential adjustment, by tax authorities.

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, the Company:

- a) granted 5,600,000 incentive stock options to certain employees, management, officers and consultants of the Company at \$0.86 for a period of five years. The stock options vest over a one year period;
- b) signed a Corporate Advisor Agreement with 1157667 BC Ltd., under which the Company granted 500,000 incentive stock options at \$0.86 for a period of five years. The stock options only vest if the Company determines that the Advisor has delivered value under the terms of the agreement. There is also a bonus in cash which could be paid if the Company, at its sole discretion considers such services have been provided.
- c) granted 200,000 incentive stock options to an advisor of the Company at \$1.23 for a period of five years. The stock options vest over a two year period;
- d) signed a Development Agreement with CNS (“CNS Development Agreement”). Under the CNS Development Agreement, the Company will receive a portion of the development costs from CNS for certain products in development in exchange for certain economic rights. In connection, the Company received an upfront cash payment of \$USD 225,000 and CNS committed to a milestone payment of \$USD 775,000 upon completion of certain milestones. In return for the funding, CNS is entitled to receive 50% of net sales of resulting commercial products in certain of the Company’s licensed territories.
- e) has received \$1.09 million on the exercise of 1,592,856 warrants and 325,000 stock options.
- f) Signed an IR Consulting Services Agreement with Green Times Consulting Ltd. In connection with this agreement the Company paid \$435,000 plus taxes, along with issuing 500,000 stock options exercisable at \$0.86 per share.
- g) In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.