



Consolidated Financial Statements  
(Expressed in Canadian Dollars)

**WAVERLEY PHARMA INC.  
(formerly Buffalo Capital Inc.)**

Year ended December 31, 2017

## Independent Auditors' Report

To the Shareholders of Waverley Pharma Inc. (formerly Buffalo Capital Inc.):

We have audited the accompanying consolidated financial statements of Waverley Pharma Inc. (formerly Buffalo Capital Inc.) and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of net loss and comprehensive loss, changes in equity (deficit) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Waverley Pharma Inc. (formerly Buffalo Capital Inc.) and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Winnipeg, Manitoba

April 26, 2018

*MNP* LLP

Chartered Professional Accountants



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

As at December 31	Note	2017	2016
<b>Assets</b>			
Current assets:			
Cash		\$ 4,856,242	\$ 100
Amounts receivable		28,226	-
Prepaid expenses and other current assets		17,100	-
<b>Total current assets</b>		<b>4,901,568</b>	<b>100</b>
Non-current assets			
Intangible assets	5	1,756,300	-
<b>Total non-current assets</b>		<b>1,756,300</b>	<b>-</b>
<b>Total assets</b>		<b>\$ 6,657,868</b>	<b>\$ 100</b>
<b>Liabilities and Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	9(b)	\$ 189,826	\$ 11,724
Current portion of license fee payable	8	470,438	-
<b>Total current liabilities</b>		<b>660,264</b>	<b>11,724</b>
Non-current liabilities			
License fee payable	8	940,875	-
<b>Total non-current liabilities</b>		<b>940,875</b>	<b>-</b>
<b>Total liabilities</b>		<b>1,601,139</b>	<b>11,724</b>
Equity (Deficit):			
Share capital	6(b)	7,000,100	100
Warrants		244,097	-
Contributed surplus		182,264	-
Accumulated other comprehensive loss		(468)	-
Deficit		(2,369,264)	(11,724)
<b>Total equity</b>		<b>5,056,729</b>	<b>(11,624)</b>
Commitments	8		
<b>Total liabilities and equity</b>		<b>\$ 6,657,868</b>	<b>\$ 100</b>

On behalf of the board

"Dr. Albert D. Friesen"  
 Director

"Mr. Pieter de Visser"  
 Director

See accompanying notes to the consolidated financial statements.



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

<b>For the year ended December 31</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Expenses</b>			
General and administrative		\$ 152,815	\$ 165
Research and development		31,330	913
		<b>184,145</b>	<b>1,078</b>
Other expense:			
Listing costs	4	2,173,296	-
		<b>2,173,296</b>	<b>-</b>
Finance costs (income)			
Finance income, net		(8,813)	-
Foreign exchange loss		8,912	-
		99	-
<b>Net loss</b>		<b>\$ (2,357,540)</b>	<b>\$ (1,078)</b>
Translation adjustment		(468)	-
<b>Comprehensive loss</b>		<b>\$ (2,358,008)</b>	<b>\$ (1,078)</b>
Loss per share attributable to shareholders:			
Basic and Diluted	6(e)	\$ (0.06)	\$ (0.00)
Weighted average shares outstanding:			
Basic and Diluted	6(e)	42,646,575	40,000,000

See accompanying notes to the consolidated financial statements.



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

	Note	Share Capital	Warrants	Contributed surplus	Accumulated other comprehensive loss	Equity (Deficit)	Total
Balance, December 31, 2015		\$ 100	\$ -	\$ -	\$ -	\$ (10,646)	\$ (10,546)
Net loss for the year ended December 31, 2016		-	-	-	-	(1,078)	(1,078)
Balance, December 31, 2016		\$ 100	\$ -	\$ -	\$ -	\$ (11,724)	\$ (11,624)
<b>Balance, December 31, 2016</b>		<b>\$ 100</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (11,724)</b>	<b>\$ (11,624)</b>
Net loss for the year ended December 31, 2017		-	-	-	-	(2,357,540)	(2,357,540)
Other comprehensive loss for the year ended December 31, 2017		-	-	-	(468)	-	(468)
Acquisition of public listing	4	7,000,000	244,097	134,520	-	-	7,378,617
Stock-based compensation	6(c)	-	-	47,744	-	-	47,744
<b>Balance, December 31, 2017</b>		<b>\$ 7,000,100</b>	<b>\$ 244,097</b>	<b>\$ 182,264</b>	<b>\$ (468)</b>	<b>\$ (2,369,264)</b>	<b>\$ 5,056,729</b>

See accompanying notes to the consolidated financial statements.



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

For the year ended December 31	Note	2017	2016
Cash (used in) provided by:			
Operating activities:			
Net loss for the year	\$	(2,357,540)	\$ (1,078)
Stock-based compensation	6(c)	47,744	-
Unrealized foreign exchange gain		(7,408)	-
Non-cash listing costs	4	2,162,374	-
Changes in working capital accounts:			
Amounts receivable		(28,226)	-
Prepaid expenses and other current assets		(17,100)	-
Accounts payable and accrued liabilities		84,015	1,078
<b>Cash flows used in operating activities</b>		<b>(116,141)</b>	<b>-</b>
Investing activities			
Cash assumed in acquisition of Buffalo Capital Inc.	4	309,460	-
<b>Cash flows provided by investing activities</b>		<b>309,460</b>	<b>-</b>
Financing activities			
Consideration received for acquisition of Buffalo Capital Inc., net of cash assumed	4	4,906,783	-
Payments on license fees payable		(243,960)	-
<b>Cash flows provided by financing activities</b>		<b>4,662,823</b>	<b>-</b>
Increase in cash		4,856,142	-
Cash, beginning of year		100	100
<b>Cash, end of year</b>	<b>\$</b>	<b>4,856,242</b>	<b>\$ 100</b>

See accompanying notes to the consolidated financial statements.



**Waverley Pharma Inc. (formerly Buffalo Capital Inc.)  
Notes to the Consolidated Financial Statements  
(expressed in Canadian dollars)**

---

**1. Reporting entity:**

Waverley Pharma Inc. ("**Waverley**" or the "**Company**") was incorporated as Buffalo Capital Inc. ("**Buffalo**") pursuant to the provisions of the Canada Business Corporations Act ("**CBCA**") on December 14, 2016 and was classified as a Capital Pool Corporation ("**CPC**") as defined by Policy 2.4 of the TSX Venture Exchange. On October 24, 2017, the Company completed a qualifying transaction (the "**QT**") with Waverley Pharma Inc. ("**Old Waverley**") and the name of the Company was changed to Waverley Pharma Inc. Old Waverley has been identified for accounting purposes as the acquirer, and accordingly the entity is considered to be a continuation of Old Waverley and the net assets of Buffalo are deemed to have been acquired by Old Waverley. The comparative figures are those of Old Waverley prior to the QT.

The Company is domiciled and incorporated in Canada and as of October 27, 2017, its Common Shares are listed on Tier 2 of the TSX Venture Exchange under the symbol "WAVE". The address of the Company's registered office and head office is 4-1250 Waverley Street, Winnipeg, Manitoba, Canada, R3T 6C6.

The Company is a biopharmaceutical company engaged in the research, development and commercialization of human therapeutics focused on oncology.

**2. Basis of preparation:**

**(a) Statement of compliance**

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

The consolidated financial statements were authorized for issue by the Board of Directors on April 26, 2018.

**(b) Basis of presentation**

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

**(c) Functional and presentation currency**

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

**(d) Use of estimates and judgments**

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

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgements and estimates, actual results may differ from these estimates.

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 amount recognized in the consolidated financial statements:

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

**2. Basis of preparation (continued):**

**(d) Use of estimates and judgments (continued)**

- Management is required to select an appropriate model and determine the related assumptions to estimate the value of share-based payment transactions as described in Note 3(j).
- Management has used judgment in its assessment that Buffalo Capital Inc., a capital pool company did not constitute a business at the time of the QT as described in Note 4.

**3. Significant accounting policies:**

**(a) Basis of Consolidation**

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

**(b) Foreign currency**

Items included in the consolidated financial statements of each of the Company's consolidated subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. The functional currency of Waverley Pharma International Inc. is the United States dollar and the functional currency of Waverley Pharma Europe Inc. is the Euro.

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

The results and financial position of the Company's foreign operations that have a functional currency different from the Company's functional and presentation currency are translated into Canadian dollars as follows:

- (i) Assets and liabilities of foreign operations are translated at the closing rate at the date of the consolidated statement of financial position;
- (ii) Revenue and expenses of foreign operations for each year are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenue and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences for foreign operations are recognized in other comprehensive income in the cumulative translation account.

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

**(b) Foreign currency (continued)**

When a foreign operation is disposed of, the component of other comprehensive income relating to that particular foreign operation is recognized in the consolidated statements of net income (loss) as part of the gain or loss on sale where applicable.

**(c) Financial instruments**

**(i) Financial assets**

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

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

The Company classifies non-derivative financial assets into the following categories: loans and receivables. The Company has not classified any assets or liabilities as held-to-maturity or as available-for-sale.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost. Loans and receivables are comprised of cash and amounts receivable.

**(ii) Financial liabilities**

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

All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Costs incurred to obtain financing are deferred and amortized over the term of the associated debt using the effective interest method. Amortization is a non-cash charge to finance expense.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or when they expire.

**(d) Impairment of financial assets**

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss for financial assets carried at amortized cost. The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

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

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

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

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

**(f) Cash equivalents**

The Company considers all liquid investments purchased with a maturity of three months or less to be cash and cash equivalents, which are carried at amortized cost and are classified as loans and receivables.

**(g) Intangible assets**

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

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

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

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

**(h) Income taxes**

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

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

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred taxes are not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

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

**(i) Earnings per share**

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

**(j) Share-based payments**

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

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

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

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

**(j) Share-based payments (continued)**

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

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

**(k) New standards and interpretations not yet adopted**

**IFRS 9 Financial Instruments: Classification and Measurement ("IFRS 9")**

IFRS 9 replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Under IFRS 9, for financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive loss, with the remainder of the change recognized in profit and loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with some exemptions. The Company has evaluated the standard and does not expect a material impact on its consolidated financial statements.

**IFRS 15 Revenue from Contracts with Customers ("IFRS 15")**

IFRS 15, issued by the IASB in May 2014, is applicable to all revenue contracts and provides a model for the recognition and measurement of gains or losses from sales of some non-financial assets. The core principle is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach. The Company has evaluated the standard and does not expect a material impact on its consolidated financial statements.

**IFRS 16, Leases ("IFRS 16")**

In January 2016, the IASB issued IFRS 16 which requires lessees to recognize assets and liabilities for most leases. Lessees will have a single accounting model for all leases, with certain exemptions. The new standard is effective January 1, 2019, with limited early application permitted. The new standard permits lessees to use either a full retrospective or a modified retrospective approach on transition for leases existing at the date of transition, with options to use certain transition reliefs. The Company is currently evaluating the impact of the above amendments on its consolidated financial statements.



**Waverley Pharma Inc. (formerly Buffalo Capital Inc.)**  
**Notes to the Consolidated Financial Statements**  
**(expressed in Canadian dollars)**

**4. Acquisition of public listing:**

On October 24, 2017, the Company completed its QT with Old Waverley. Pursuant to the QT, the Company and Old Waverley completed a non-arm's length business combination transaction by way of amalgamation (the "**Amalgamation**") pursuant to the CBCA to continue as a new company, Waverley Pharma Inc. (the "**Resulting Issuer**"). Each common share in the capital of Buffalo (the "**Buffalo Shares**") that was outstanding immediately prior to the Amalgamation (other than Buffalo Shares held by shareholders of Buffalo who exercised their dissent rights) was converted into one (1) issued and fully paid and non-assessable common share in the share capital of the Resulting Issuer (a "**Resulting Issuer Share**") at a deemed price of \$0.50 per Resulting Issuer Share (the "**Buffalo Exchange Ratio**"). Each Class "A" common share in the capital of Old Waverley (an "**Old Waverley Share**") that was outstanding immediately prior to the Amalgamation (other than Old Waverley Shares held by shareholders of Old Waverley who exercised their dissent rights) was converted into 400,000 issued and fully paid and non-assessable Resulting Issuer Shares at a deemed price of \$0.50 per Resulting Issuer Share (the "**Waverley Exchange Ratio**"). As a result of the QT, immediately after the Amalgamation, the former holders of Buffalo Shares held, in the aggregate, 14,000,000 Resulting Issuer Shares representing 25.9% of the outstanding Resulting Issuer Shares and the former holder of Old Waverley Shares held, in the aggregate, 40,000,000 Resulting Issuer Shares representing approximately 74.1% of the outstanding Resulting Issuer Shares.

A condition to the completion of the Amalgamation was that Buffalo complete a financing for gross proceeds of up to \$5,000,000. Immediately prior to the completion of the Amalgamation, Buffalo completed a brokered private placement of 11,000,000 Buffalo Shares at an issue price of \$0.50 per share for aggregate gross proceeds of \$5,500,000 (the "**Concurrent Financing**") and representing an oversubscription of 1,000,000 Buffalo Shares (10%) over the amount that had previously been announced. PI Financial Corp ("**PI**") acted as lead agent in connection with the Concurrent Financing and was paid a cash commission of 7% of the gross proceeds of the Concurrent Financing, as well as receiving 770,000 warrants (the "**Agents' Warrants**") which shall entitle PI to acquire one (1) Resulting Issuer Share for each warrant at a price of \$0.50 for a period of 24 months following the completion of the Amalgamation.

The QT constitutes a reverse takeover of Buffalo by Old Waverley. Since Buffalo did not meet the definition of a business under IFRS 3, *Business Combinations*, the acquisition was accounted for as a purchase of Buffalo's assets by Old Waverley. The consideration paid was determined as an equity settled share-based payment under IFRS 2, *Share-based Payments*, and measured at the fair value of the equity of the Resulting Issuer retained by the shareholders of Buffalo based on the fair value of the shares issued in the Concurrent Financing.

The comparative figures that are presented in the consolidated financial statements are those of Old Waverley. The consolidated statements of loss and comprehensive loss include the full results of Old Waverley from January 1, 2017 to October 24, 2017.

The Company recorded listing costs of \$2,173,296 in the consolidated statements of loss and comprehensive loss, the details of which are as follows:

Consideration paid	\$	7,378,617
Less: net assets of Buffalo:		
Cash		309,460
Amounts receivable		5,500,000
Accounts payable and accrued liabilities		(593,217)
Direct listing costs	\$	2,162,374
Professional fees related to the QT		10,922
<b>Total listing costs</b>	<b>\$</b>	<b>2,173,296</b>



**Waverley Pharma Inc. (formerly Buffalo Capital Inc.)**  
**Notes to the Consolidated Financial Statements**  
**(expressed in Canadian dollars)**

**4. Acquisition of public listing (continued):**

Consideration comprised of		
Fair value of common shares	\$	7,000,000
Fair value of options		134,520
Fair value of warrants		244,097
<b>Total consideration paid</b>	<b>\$</b>	<b>7,378,617</b>

The fair value of the common shares of Buffalo was determined by multiplying the outstanding Buffalo common shares at the date of the QT, 14,000,000 by the fair value of the shares, \$0.50 per common share.

Prior to the QT, Buffalo had issued 300,000 share options (the “**Buffalo Options**”) to certain directors of Buffalo and 970,000 warrants (the “**Buffalo Warrants**”) to an agent as partial compensation for previous completed financings. Pursuant to the QT, each Buffalo Option converted into one (1) Resulting Issuer share option (a “**Resulting Issuer Option**”) and each Buffalo Warrant converted into one (1) Resulting Issuer warrant (a “**Resulting Issuer Warrant**”). The fair value component related to the Resulting Issuer Options and Resulting Issuer Warrants was determined using the Black-Scholes Model using the following assumptions:

	Options	Warrants
Expected life	9.51 years	1.5 – 2.0 years
Expected volatility	85%	85%
Risk free rate	2.06%	1.49%
Dividend yield	-	-
Underlying share price	\$ 0.50	\$ 0.50
Strike price	\$ 0.20	\$ 0.20 – \$ 0.50

**5. Intangible assets:**

Cost		Licenses
Balance, December 31, 2015	\$	-
Balance, December 31, 2016	\$	-
Acquisitions		1,765,454
Effects of movements in exchange rates		(9,154)
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>1,756,300</b>

On August 30, 2017 the Company acquired exclusive licenses to two generic cancer drugs from an arms-length third party, Reliance Life Sciences Private Limited (“**RLS**” or the “**Licensor**”), in the United States of America and its territories, Canada and Europe (excluding the United Kingdom where a non-exclusive license was acquired). An up-front payment of US\$20,000 was made upon signing of the term sheet on July 5, 2017 and a US\$180,000 payment was made upon signing of the definitive documentation on August 30, 2017. Additional payments of US\$1,200,000 are payable upon certain development and approval based milestones being met. Additionally, the Company will purchase inventory and pay a royalty of 7.5% of its net sales from these two products to the Licensor. As the intangible assets relate to products under development, they are not currently available for use and as such, no amortization has been recorded for the year ended December 31, 2017.



**Waverley Pharma Inc. (formerly Buffalo Capital Inc.)**  
**Notes to the Consolidated Financial Statements**  
**(expressed in Canadian dollars)**

**6. Capital stock:**

**(a) Authorized**

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

**(b) Shares issued and outstanding**

Shares issued and outstanding are as follows:

	Number of Common Shares		Amount
Balance, December 31, 2015	100	\$	100
Balance, December 31, 2016	100	\$	100
Elimination of Old Waverley Shares ( <i>note 4</i> )	(100)		-
Conversion to Resulting Issuer Shares at 400,000 per Old Waverley Share ( <i>note 4</i> )	40,000,000		-
Shares issued to Buffalo Shareholders ( <i>note 4</i> )	14,000,000		7,000,000
<b>Balance, December 31, 2017</b>	<b>54,000,000</b>	<b>\$</b>	<b>7,000,100</b>

**(c) Stock option plan**

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

The fair value of the Options issued during the year ended December 31, 2017 was estimated using the following Black-Scholes Model assumptions:

	<b>2017</b>
For the year ended December 31	
Expected life	10 years
Expected volatility	85.00%
Risk free rate	2.06%
Dividend yield	-
Underlying share price	\$ 0.50
Strike price	\$ 0.50

**Waverley Pharma Inc. (formerly Buffalo Capital Inc.)  
Notes to the Consolidated Financial Statements  
(expressed in Canadian dollars)**

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

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

Expected volatility was estimated by reference to comparable listed entities. Stock-based compensation expense for the year ended December 31, 2017 totaled \$47,744 (2016 – nil) was recorded in general and administrative expenses during the period.

Changes in the number of Options outstanding during the year ended December 31, 2017 are as follows:

For the year ended December 31	Number of options	Weighted average exercise price
Balance, beginning of period	-	\$ -
Granted <sup>(1)(2)</sup>	1,300,000	0.43
Exercised	-	-
<b>Balance, end of period</b>	<b>1,300,000</b>	<b>\$ 0.43</b>
<b>Options exercisable, end of period</b>	<b>300,000</b>	<b>\$ 0.20</b>

The following is a summary of the 1,300,000 outstanding Options issued under the Plan:

Exercise price	Number outstanding	Weighted average remaining contractual life	Number exercisable	Weighted average remaining vesting period
\$0.20 <sup>(1)</sup>	300,000	9.3 years	300,000	-
\$0.50 <sup>(2)</sup>	1,000,000	9.8 years	-	1.8 years
	1,300,000			-

<sup>(1)</sup> Upon completion of the Amalgamation (note 4), 300,000 Buffalo Options converted into 300,000 Resulting Issuer Options. The Options, which vested immediately upon grant date of April 27, 2017 are exercisable within ten years from the date of the grant at an exercise price of \$0.20 per common share.

<sup>(2)</sup> Concurrent with the completion of the Amalgamation (note 4), the Company issued 1,000,000 Resulting Issuer Options to certain directors and consultants of the Company. The Options have an exercise price of \$0.50 per common share, vest in tranches over a period of three years and expire ten years from the date of grant.



**Waverley Pharma Inc. (formerly Buffalo Capital Inc.)**  
**Notes to the Consolidated Financial Statements**  
**(expressed in Canadian dollars)**

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

**(d) Warrants**

Changes in the number of warrants outstanding during the year ended December 31, 2017 are as follows:

For the year ended December 31	Warrants	Weighted average exercise price	
Balance, beginning of period	-	\$	-
Granted <sup>(a)(b)</sup>	970,000		0.44
Exercised	-		-
Balance, end of period	970,000	\$	0.44

<sup>(a)</sup> Upon completion of the Amalgamation (note 4), 200,000 Buffalo Warrants converted into 200,000 Resulting Issuer Warrants. The warrants, which were granted on April 27, 2017 are exercisable within 24 months of the date of grant at a price of \$0.20 per common share.

<sup>(b)</sup> Prior to the completion of the Amalgamation (note 4), Buffalo issued 770,000 warrants (converted into Resulting Issuer Warrants upon the Amalgamation) to PI which entitle PI to acquire one common share of the Resulting Issuer for each warrant at a price of \$0.50 per common share for a period of 24 months following the completion of the Amalgamation.

**(e) Per share amounts**

The weighted average number of common voting shares outstanding for the year ended December 31, 2017 was 42,646,575. The weighted average number of common voting shares outstanding for the year ended December 31, 2016 was 40,000,000, adjusted for the Exchange Ratio (note 4). Effects of dilution from 1,300,000 Options and 970,000 Warrants were excluded from the calculation of weighted average shares outstanding for diluted earnings per share for the year ended December 31, 2017 as they are anti-dilutive.



**Waverley Pharma Inc. (formerly Buffalo Capital Inc.)**  
**Notes to the Consolidated Financial Statements**  
**(expressed in Canadian dollars)**

**7. Income taxes:**

As at December 31, 2017 and 2016, the Company has unused tax losses and deductible temporary differences for which no deferred tax asset has been recognized as follows:

As at December 31	2017		2016	
Non-capital loss carryforwards	\$	160,872	\$	11,724
Deductible temporary differences		147,744		-
	\$	308,616	\$	11,724

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

Year ended December 31	2017		2016	
Loss for the year				
Canada	\$	(2,316,579)	\$	(1,078)
Foreign		(40,961)		-
	\$	(2,357,540)	\$	(1,078)
Income tax recovery at statutory rate of 27.0%	\$	(636,536)		(291)
Foreign tax rate in foreign jurisdiction		10,035		-
Non-deductible expenses		604,117		-
Taxable loss carry-forwards and deductible temporary differences not recognized		22,384		291
	\$	-	\$	-

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

As at December 31, 2017, Canadian non-capital losses available for application in future years, are approximately as follows:

Year of expiry		
2034	\$	10,646
2035		1,129
2036		51,666
2037		57,346
	\$	120,787

As at December 31, 2017, Barbados non-capital losses available for application in future years, are approximately as follows:

Year of expiry		
2024	\$	40,085
	\$	40,085

**Waverley Pharma Inc. (formerly Buffalo Capital Inc.)**  
**Notes to the Consolidated Financial Statements**  
**(expressed in Canadian dollars)**

---

**8. Commitments:**

On August 30, 2017 the Company acquired exclusive licenses to two generic cancer drugs from RLS, in the United States of America and its territories, Canada and Europe (excluding the United Kingdom where a non-exclusive license was acquired). An up-front payment of US\$20,000 was made upon signing of the term sheet on July 5, 2017 and a US\$180,000 payment was made upon signing of the signing of definitive documentation on August 30, 2017. Additional payments of US\$1,200,000 are payable upon certain development and approval based milestones being met. Additionally, the Company will purchase inventory and pay a royalty of 7.5% of its net sales from these two products to the Licensor.

**9. Related party transactions:**

**(a) Key management personnel compensation**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Board of Directors (the “**Board**”), Chief Executive Officer (“**CEO**”) and Chief Financial Officer (“**CFO**”) of the Company are key management personnel.

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

For the year ended December 31	2017	2016
Salaries, fees and short-term benefits	\$ 20,833	\$ -
Stock-based compensation	42,970	-
	\$ 63,803	\$ -

Directors and key management personnel control 76% of the voting shares of the Company as at December 31, 2017 (2016 - 100%).

**(b) Transactions with related parties**

During the year ended December 31, 2017, the Company paid CanAm BioResearch Inc. (“**CanAm**”), a company controlled by a director of the Company a total of \$20,833 (2016 – nil) for CEO services.

During the year ended December 31, 2017, the Company paid Genesys Venture Inc. (“**GVI**”), a company controlled by a director of the Company, a total of \$1,500 (2016 – nil) for rental of office space. Additionally, GVI paid expenses totaling \$130 (2016 - \$165) on behalf of the Company.

During the year ended December 31, 2017, the Company received cash advances from GVI Clinical Development Solutions (“**GVI CDS**”), a Company controlled by a director of the Company, totalling \$26,125 USD (CDN - \$34,915).

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

As at December 31, 2017, included in accounts payable and accrued liabilities is \$2,186 (2016 - \$481) payable to GVI, \$26,125 USD (CDN - \$32,774; 2016 – nil) to GVI CDS and \$21,875 (2016 - \$11,243) payable to CanAm, which are unsecured, payable on demand and non-interest bearing.



**Waverley Pharma Inc. (formerly Buffalo Capital Inc.)**  
**Notes to the Consolidated Financial Statements**  
**(expressed in Canadian dollars)**

**10. Expenses by nature**

Expenses incurred for the years ended December 31, 2017 and 2016 are as follows:

For the year ended December 31	2017		2016	
Salaries, fees and short-term benefits	\$	33,662	\$	-
Stock-based compensation		47,744		-
Total, employee benefits	\$	81,406	\$	-
General and administrative		71,409		165
Research and development		31,330		913
	\$	184,145	\$	1,078

**11. Financial instruments:**

**(a) Financial assets and liabilities**

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the consolidated financial statements as at December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Loans and receivables				
Cash	\$ 4,856,242	\$ 4,856,242	\$ 100	\$ 100
Amounts receivable	28,226	28,226	-	-
<b>Financial liabilities</b>				
Other financial liabilities				
Accounts payable and accrued liabilities	\$ 189,826	\$ 189,826	\$ 11,724	\$ 11,724
Current portion of license fee payable	470,438	470,438	-	-
License fee payable	940,875	940,875	-	-

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

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

**Waverley Pharma Inc. (formerly Buffalo Capital Inc.)**  
**Notes to the Consolidated Financial Statements**  
**(expressed in Canadian dollars)**

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

**(a) Financial assets and liabilities (continued)**

The fair value hierarchy of financial instruments measured at fair value on the consolidated statements of financial position as at December 31, 2017 is as follows:

		Level 1		Level 2		Level 3
<b>Financial Liabilities</b>						
Current portion of license fee payable	\$	-	\$	470,438	\$	-
License fees payable		-		940,875		-

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. During the periods ended December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements.

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

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

**(i) Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

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

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

(Expressed in United States dollars)	December 31, 2017		December 31, 2016	
Cash	\$	174,790	\$	-
Amounts receivable		20,000		-
Accounts payable and accrued liabilities		(76,118)		-
Current portion of license fee payable		(375,000)		-
License fee payable		(750,000)		-
	\$	(1,006,328)	\$	-

Based on the above net exposures as at December 31, 2017, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the United States dollar would result in a corresponding increase or decrease on the Company's net income of approximately \$63,000 (2016 – nil).

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

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

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

**(ii) Credit risk**

Credit risk is the risk of financial loss to the Company if a partner or counterparty to a financial instrument fails to meet its contractual obligation and arises principally from the Company's cash. The carrying amounts of the financial assets represents the maximum credit exposure. The Company will limit its exposure to credit risk on cash by placing these financial instruments with high-credit quality financial institutions and the Company believes it has no significant credit risk.

**(iii) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows, as well as anticipated investing and financing activities and to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due and to fund future operations.

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

**(c) Capital management**

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

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

**12. Determination of fair value:**

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

**(a) Intangible assets**

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use or eventual sale of the assets.

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

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



**Waverley Pharma Inc. (formerly Buffalo Capital Inc.)**  
**Notes to the Consolidated Financial Statements**  
**(expressed in Canadian dollars)**

---

**12. Determination of fair value (continued):**

*(c) License fee payable*

The license fee payable was recorded at its fair value at the date in which the liability was incurred and subsequently measured at fair value at each reporting date. Estimating fair value for this liability requires determining timing and probability of the payment of each milestone due and making appropriate assumptions about them.

**13. Segmented information:**

The Company operates in one business segment, the biopharmaceutical industry. The Company's intangible assets are located in Barbados.