



Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)

WAVERLEY PHARMA INC.

Three and nine months ended September 30, 2019
(unaudited)

In accordance with National Instruments 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2019.



Condensed Consolidated Interim Statements of Financial Position
 (expressed in Canadian dollars)
 (unaudited)

	Note	September 30, 2019	December 31, 2018
Assets			
Current assets:			
Cash		\$ 1,751,171	\$ 2,942,968
Accounts receivable	4, 8(b)	624,679	327,984
Inventory	5	183,758	29,499
Prepaid expenses and other current assets		49,461	26,234
Total current assets		2,609,069	3,326,685
Non-current assets			
Intangible assets	6	1,854,898	1,909,880
Total non-current assets		1,854,898	1,909,880
Total assets		\$ 4,463,967	\$ 5,236,565
Liabilities and Equity			
Current liabilities:			
Accounts payable and accrued liabilities	9(b)	\$ 309,867	\$ 241,099
Current portion of license fee payable	8(b)	993,695	1,023,150
Total current liabilities		1,303,562	1,264,249
Total liabilities		1,303,562	1,264,249
Equity:			
Share capital	7(b)	7,000,100	7,000,100
Warrants		177,177	244,097
Contributed surplus		626,909	434,647
Accumulated other comprehensive income		28,759	83,444
Deficit		(4,672,540)	(3,789,972)
Total equity		3,160,405	3,972,316
Total liabilities and equity		\$ 4,463,967	\$ 5,236,565

Commitments and contingencies (Note 8)

See accompanying notes to the condensed consolidated interim financial statements.



Condensed Consolidated Interim Statements of Net Loss and Comprehensive Loss
(expressed in Canadian dollars)
(unaudited)

	Note	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenue from contracts with customers		\$ 264,290	\$ -	\$ 884,852	\$ -
Cost of goods sold	5	243,809	-	773,272	-
Gross Profit		20,481	-	111,580	-
Expenses:					
Selling, general and administrative		514,451	218,620	995,560	510,894
Research and development		3,282	9,189	53,383	707,833
		517,733	227,809	1,048,943	1,218,727
Loss before the undernoted		(497,252)	(227,809)	(937,363)	(1,218,727)
Other income:					
Loss recovery under profit sharing arrangement	8(b)	(11,301)	-	(27,760)	-
		(11,301)	-	(27,760)	-
Finance income:					
Finance income, net		(10,533)	(16,820)	(39,647)	(48,861)
Foreign exchange gain		4,880	1,120	12,612	817
		(5,653)	(15,700)	(27,035)	(48,044)
Net loss		\$ (480,298)	\$ (212,109)	\$ (882,568)	\$ (1,170,683)
Translation adjustment		5,491	(17,166)	(54,685)	27,186
Comprehensive loss		\$ (474,807)	\$ (229,275)	\$ (937,252)	\$ (1,143,497)
Loss per share attributable to shareholders:					
Basic and Diluted	7(e)	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.02)
Weighted average shares outstanding:					
Basic and Diluted	7(e)	54,000,000	54,000,000	54,000,000	54,000,000

See accompanying notes to the condensed consolidated interim financial statements.



Condensed Consolidated Interim Statements of Changes in Equity
 (expressed in Canadian dollars)
 (unaudited)

	Note	Share Capital	Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2017		\$ 7,000,100	\$ 244,097	\$ 182,264	\$ (468)	\$ (2,369,264)	\$ 5,056,729
Net loss for the nine months ended September 30, 2018		-	-	-	-	(1,107,683)	(1,107,683)
Other comprehensive income for the nine months ended September 30, 2018		-	-	-	27,186	-	27,186
Stock-based compensation	7(c)	-	-	200,233	-	-	200,233
Balance, September 30, 2018		\$ 7,000,100	\$ 244,097	\$ 382,497	\$ 26,718	\$ (3,539,947)	\$ 4,113,465
Balance, December 31, 2018		\$ 7,000,100	\$ 244,097	\$ 434,647	\$ 83,444	\$ (3,789,972)	\$ 3,972,316
Net loss for the nine months ended September 30, 2019		-	-	-	-	(882,568)	(882,568)
Other comprehensive loss for the nine months ended September 30, 2019		-	-	-	(54,685)	-	(54,685)
Stock-based compensation	7(c)	-	-	125,342	-	-	125,342
Transfer on expiry of warrants	7(d)	-	(66,920)	66,920	-	-	-
Balance, September 30, 2019		\$ 7,000,100	\$ 177,177	\$ 626,909	\$ 28,759	\$ (4,672,540)	\$ 3,160,405

See accompanying notes to the condensed consolidated interim financial statements.



Condensed Consolidated Interim Statements of Cash Flows
 (expressed in Canadian dollars)
 (unaudited)

For the nine months ended September 30	Note	2019		2018
Cash (used in) provided by:				
Operating activities:				
Net loss for the period		\$ (882,568)	\$	(1,170,683)
Stock-based compensation	7(c)	125,342		200,233
Changes in working capital accounts:				
Accounts receivable		(296,695)		(67,797)
Inventory		(154,260)		-
Prepaid expenses and other current assets		(23,227)		(36)
Accounts payable and accrued liabilities		68,768		(143,826)
Cash flows used in operating activities		(1,162,640)		(1,182,109)
Financing activities:				
Payments on license fees payable		-		(488,798)
Cash flows used in financing activities		-		(488,798)
Decrease in cash		\$ (1,162,640)	\$	(1,607,907)
Effect of exchange rate differences on cash		(29,157)		20,347
Cash, beginning of year		2,942,968		4,856,242
Cash, end of period		\$ 1,751,171	\$	3,205,682

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements
(expressed in Canadian dollars)
(unaudited)

1. Reporting entity:

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

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

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

2. Basis of preparation:

(a) Statement of compliance

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

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 *Interim Financial Reporting* and have been prepared using the same accounting policies and methods of application as those used in the Company’s audited consolidated financial statements for the year ended December 31, 2018. These condensed consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2018.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors (the “**Board**”) on November 26, 2019.

(b) Basis of presentation

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

(c) Functional and presentation currency

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

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

Notes to the Condensed Consolidated Interim Financial Statements
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2. Basis of preparation (continued):

(d) Use of estimates and judgments (continued)

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

Information about key assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are included in the following notes to the consolidated financial statements for the year ended December 31, 2018:

- Note 3(e): The estimation of variable consideration on the revenue from contracts with customers
- Note 3(g): The measurement and valuation of inventory
- Note 3(h): The measurement and period of use of intangible assets
- Note 3(i): The estimation of accruals for research and development costs
- Note 3(l): The measurement of the amount and assessment of the recoverability of unused tax losses and deductible temporary differences
- Note 3(m): The assumptions used to estimate the value of share-based payment transactions and warrants

3. New standards and interpretations:

Set out below is the impact of the mandatory adoption of the new standard:

IFRS 16: Leases ("IFRS 16")

Effective January 1, 2019, the Company has adopted IFRS 16 retrospectively. Prior periods were not restated and no material changes resulted from adoption of this new standard. IFRS 16 requires lessees to recognize assets and liabilities for most leases, with exemptions available for leases with a term that is twelve (12) months or less, or where the underlying asset is of a low value. There were no quantitative impacts from adoption of IFRS 16.

Unless exempted, as noted above, upon inception of a lease, lessees will be required to recognize a right-of use ("ROU") asset, representing the Company's right to use the underlying asset and a lease liability representing its obligation for lease payments due to the lessor. ROU assets and the corresponding liability are initially measured at the present value of non-cancellable payments, including those made in accordance with an option period when the Company expects to exercise an option period to extend or not terminate a lease.

Upon transition to IFRS 16, the Company utilized a practical expedient permitting the Company to continue to account for an office space lease as a short-term lease, in which the lease term ends within twelve months of the date of the initial adoption of IFRS 16.

4. Accounts receivable

	September 30, 2019	December 31, 2018
Trade accounts receivable	\$ 442,154	\$ 273,702
Other accounts receivable	182,525	54,282
	\$ 624,679	\$ 327,984

As at September 30, 2019, there was one customer with amounts owing greater than 10% of the Company's trade accounts receivable which totaled 100% in aggregate (December 31, 2018 – one customer totaling 100%).



Notes to the Condensed Consolidated Interim Financial Statements
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5. Inventory

Inventory consists of finished product available for sale to customers. Inventory expensed as part of cost of goods sold during the three and nine months ended September 30, 2019 totaled \$243,809 and \$773,272, respectively (2018 – nil and nil). Included in cost of goods sold for the three and nine months ended September 30, 2019 is \$31,897 of non-recurring costs relating to inventory write-offs.

6. Intangible assets:

Cost		Licenses
Balance, December 31, 2017	\$	1,756,300
Effects of movements in exchange rates		153,580
Balance, December 31, 2018	\$	1,909,880
Effects of movements in exchange rates		(54,982)
Balance, September 30, 2019	\$	1,854,898

On August 30, 2017, the Company acquired exclusive territorial licenses from RLS to sell and market two generic cancer drugs in the USA, Canada and the EU (excluding the UK where a non-exclusive territorial license was acquired).

The Company has considered indicators of impairment as at September 30, 2019 and 2018 and did not record an impairment charge in either the three or nine months ended September 30, 2019 or 2018.

As the intangible assets relate to products under development, they are not currently available for use and as such, no amortization has been recorded to September 30, 2019.

7. 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, 2017	54,000,000	\$ 7,000,100
Balance, December 31, 2018	54,000,000	\$ 7,000,100
Balance, September 30, 2019	54,000,000	\$ 7,000,100

Notes to the Condensed Consolidated Interim Financial Statements
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7. Capital stock (continued):

(c) Stock option plan

The Company has an incentive stock option plan (the “**Plan**”) whereby the Company may grant 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. The number of common shares reserved for issuance upon the exercise of Options is limited to a maximum of 10% of the issued and outstanding common shares of the Company at any time.

Expected volatility was estimated by reference to comparable listed entities. Stock-based compensation expense for the three and nine months ended September 30, 2019 totaling \$38,861 and \$125,342, respectively (2018 – \$73,150 and \$200,233) was recorded in selling, general and administrative expenses during the period. The compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model. The expected life of stock options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Changes in the number of Options outstanding during the nine months ended September 30, 2019 and 2018 are as follows:

For the six months ended September 30	2019		2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	1,750,000	\$ 0.39	1,300,000	\$ 0.43
Balance, end of period	1,750,000	\$ 0.39	1,300,000	\$ 0.43
Options exercisable, end of period	828,333	\$ 0.33	495,000	\$ 0.22

The following is a summary of the 1,750,000 outstanding Options issued under the Plan as at September 30, 2019:

Exercise price	Number outstanding	Weighted average remaining contractual life	Number exercisable	Weighted average remaining vesting period
\$0.200	300,000	7.5 years	300,000	-
\$0.260	400,000	3.8 years	195,000	0.3 years
\$0.285	50,000	4.1 years	-	1.1 years
\$0.500	1,000,000	8.0 years	333,333	0.5 years
	1,750,000		633,333	

Notes to the Condensed Consolidated Interim Financial Statements
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7. Capital stock (continued):

(d) Warrants

Changes in the number of warrants outstanding during the nine months ended September 30, 2019 and 2018 are as follows:

Nine months ended September 30	2019		2018	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Balance, beginning of period	970,000	\$ 0.44	970,000	\$ 0.44
Expired	(200,000)	(0.20)	-	-
Balance, end of period ^(*) (^{**})	770,000	\$ 0.50	970,000	\$ 0.44

(*) On October 24, 2017, immediately prior to the QT, Buffalo granted 770,000 warrants to an agent as partial compensation for their role in a completed financing. The warrants converted into warrants of Waverley upon the completion of the QT. Each warrant entitles the holder to purchase one (1) common share of Waverley and are exercisable within 24 months of the date of grant at an exercise price of \$0.50 per common share.

(**) Subsequent to period end on October 24, 2019, the remaining 770,000 warrants with a weighted average exercise price of \$0.50 per share expired without being exercised.

(e) Per share amounts

The weighted average number of common voting shares outstanding for the three and nine months ended September 30, 2019 was 54,000,000 and 54,000,000 (2018 – 54,000,000 and 54,000,000). Effects of dilution from 1,750,000 Options and 770,000 Warrants were excluded from the calculation of weighted average shares outstanding for diluted earnings per share for the three and nine months ended September 30, 2019 as they are anti-dilutive. 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 three and nine months ended September 30, 2018 as they are anti-dilutive.

8. Commitments and contingencies:

(a) Commitments

As at September 30, 2019, and in the normal course of business, the Company has obligations to make future payments representing contracts and other commitments that are known and committed.

WPEL has an office lease at a rate of €1,084 per month for a term ending October 31, 2019. In addition, the Company through its other subsidiary, WPIL has commitments totaling US \$3,000 for professional services to be provided to the Company. All commitments are current and expected to be settled within one year of September 30, 2019.

Notes to the Condensed Consolidated Interim Financial Statements
 (expressed in Canadian dollars)
 (unaudited)

8. Commitments and contingencies (continued):

(b) Contingencies

June 7, 2018 agreement

On June 7, 2018, the Company through WPIL entered into a license, manufacture, supply, marketing and distribution agreement with RLS (the “**June 2018 Agreement**”) by which the Licensor granted the Company an exclusive territorial license to market and sell Capecitabine in the UK and Germany and non-exclusive territorial license to market and sell Temozolomide in the UK. Additionally, the Company has assumed the obligations associated with a binding contract held by the Licensor for the supply of these products to the UK National Health Service (“**NHS**”). All inventory purchased for resale in accordance with the June 2018 Agreement will be purchased from RLS.

In connection with the signing of the June 2018 Agreement, the Company entered into a profit and/or loss sharing arrangement resulting in a portion of the net profits, after a margin deduction to the Company on the sales of Capecitabine and Temozolomide, to be paid to RLS, on sales in accordance with the June 2018 Agreement. During the three and nine months ended September 30, 2019, the Company recorded a recovery of \$11,301 and \$27,760, respectively in its statement of loss in accordance with the June 2018 Agreement to be recovered from RLS.

August 30, 2017 agreement

On August 30, 2017, the Company, through WPIL acquired exclusive territorial licenses to sell and market two generic cancer drugs with RLS (the “**August 2017 Agreement**”), in the USA, Canada and the EU (excluding the UK where a non-exclusive license was acquired). An up-front payment of US \$20,000 was made upon signing of the term sheet on July 5, 2017 and a US \$180,000 payment was made upon signing of the 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 and as at September 30, 2019, the Company has paid US \$650,000 of this amount with US \$750,000 (CAD - \$993,695) recorded as license fee payable. Additionally, the Company will purchase inventory and pay a royalty of 7.5% of its net sales from these two products to the Licensor. The term of the August 2017 Agreement is a period of ten (10) years, which begins when regulatory approval is obtained in the USA.

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, Chief Financial Officer (“**CFO**”) and effective August 1, 2018, the current Chief Executive Officer (the “**Current CEO**”) of the Company are key management personnel. The former Chief Executive Officer (the “**Former CEO**”) was considered key management until his resignation, effective July 26, 2018. Compensation paid to CanAm (as defined below) for the services provided by the Former CEO was included within the compensation paid to key management personnel for the three and nine months ended September 30, 2018.

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

	Three months ended September 30, 2019		Three months ended September 30, 2018		Nine months ended September 30, 2019		Nine months Ended September 30, 2018
Salaries, fees and short-term benefits	\$ 34,993	\$	43,789	\$	106,334	\$	106,289
Stock-based compensation	33,896		66,690		111,682		181,065
	\$ 68,889	\$	110,479	\$	218,016	\$	287,354

Directors and key management personnel control 75% of the voting shares of the Company as at September 30, 2019 (December 31, 2018 - 75%).

9. Related party transactions (continued):

Notes to the Condensed Consolidated Interim Financial Statements
(expressed in Canadian dollars)
(unaudited)

(b) Transactions with related parties

During the three and nine months ended September 30, 2019, the Company paid Genesys Venture Inc. (“**GVI**”), a company controlled by a director of the Company, a total of \$525 and \$2,100, respectively (2018 – \$2,363 and \$7,088) for rental of office space \$3,261 and \$8,187, respectively (2018 – \$8,528 and \$8528) and for business administration expenses.

During the three and nine months ended September 30, 2019, the Company paid GVI Clinical Development Solutions (“**GVI CDS**”) a company controlled by a director of the Company, a total of nil and \$226, respectively (2018 – \$3,874 and \$12,645) for regulatory affairs consulting.

During the three and nine months ended September 30, 2018, the Company paid CanAm Bioresearch Inc. (“**CanAm**”), a company controlled by a director of the Company a total of of \$14,118 and \$79,743, respectively for CEO services provided by the Former CEO. As a result of the resignation of the Former CEO on July 26, 2018, there were no equivalent payments made during the three and nine months ended September 30, 2019.

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 September 30, 2019, included in accounts payable and accrued liabilities is \$2,171 (December 31, 2018 - \$2,987) payable to GVI, \$112 (December 31, 2018 - \$282) payable to GVI CDS, \$16,123 (December 31, 2018 - \$10,394) payable to the Current CEO and \$2,418 (December 31, 2018 – nil) owed to A.D. Friesen Enterprises Ltd., a Company owned by a member of the Board of Directors, which are unsecured, payable on demand and non-interest bearing.

10. Segmented information:

The Company operates in one business segment, the biopharmaceutical industry. The Company’s intangible assets are located in Barbados. The Company holds tenders (each a “**Tender**”) with the NHS for the supply of Temozolomide and Capecitabine as agreed upon in each Tender. To facilitate such supply, the Company has entered into a logistics and distribution agreement with a third-party consignor (the “**Consignor**”). All of the Company’s revenue was generated in the UK from sales of Temozolomide and Capecitabine to the Consignor, and therefore sales to the Consignor accounts for 100% of total revenue for the three and nine months ended September 30, 2019. The Company did not record any revenue during the three and nine months ended September 30, 2018.