



ZOMEDICA™

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**Management Discussion and Analysis
Financial Statements**

For the three and nine months ended September 30, 2019 and 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and the related notes and the other financial information included elsewhere in this Quarterly Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Quarterly Report, and those set forth in our most recent Annual Report on Form 10-K particularly those under "Risk Factors" discussed below and in our most recent Annual Report on Form 10-K.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on management's beliefs and assumptions and on information currently available to management. Some of the statements under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and elsewhere in this Form 10-Q contain forward-looking statements. In some cases, you can identify forward-looking statements through our use of words such as "may," "might," "will," "could," "would," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "project," "potential," "continue," "ongoing" or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words.

There are a number of important factors that could cause the actual results to differ materially from those expressed in any forward-looking statement made by us. These factors include, but are not limited to:

- the success, cost and timing of our research and development activities, validation studies and pivotal trials, including with respect to our lead product candidates, TRUFORMA™, ZM-017, ZM-022, ZM-020, ZM-007, ZM-012 ZM-006, and ZM-011;
- our ability to obtain regulatory approval from the Food and Drug Administration's Center for Veterinary Medicine (FDA-CVM) and/or the USDA Center for Veterinary Biologics (USDA-CVB) for our pharmaceutical and diagnostic product candidates, as applicable;
- our ability to obtain funding for our operations;
- our obligation to pay a portion of our "net sales" to holders of our Series 1 Preferred Shares;
- our ability to raise additional capital, considering the significant obligations under our Series 1 Preferred Shares;
- the ability of our contract research organizations to appropriately conduct our safety studies and certain development activities;
- the ability of our contract manufacturing organizations to manufacture and supply our product candidates in accordance with current Good Manufacturing Practices and our clinical needs;
- the ability of our contract manufacturing organizations to manufacture and supply our product candidates in accordance with current Good Manufacturing Practices and our clinical needs;
- our plans to develop and commercialize our product candidates;
- our ability to develop and commercialize product candidates that can compete effectively against the product candidates developed and commercialized by our competitors or that can meet the current standards of care (including human generic drugs);

- the size and growth of the veterinary diagnostics and therapeutics markets;
- our ability to obtain and maintain intellectual property protection for our current and future product candidates;
- regulatory developments in the United States;
- the loss of key scientific or management personnel;
- our expectations regarding the period during which we will be an “emerging growth company” under the JOBS Act;
- the accuracy of our estimates regarding expenses, future revenues, capital requirements and needs for additional financing; and
- our status as a “passive foreign investment company” for U.S. federal income tax purposes.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipate in our forward-looking statements. Please see “Risk Factors” below and in our most recent Annual Report on Form 10-K for additional risks which could adversely impact our business and financial performance.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this report or the date of the document incorporated by reference into this report. We have no obligation, and expressly disclaim any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. We have expressed our expectations, beliefs and projections in good faith, and we believe they have a reasonable basis. However, we cannot assure you that our expectations, beliefs or projections will result or be achieved or accomplished.

Overview

We are a development stage veterinary diagnostic and pharmaceutical company creating products for companion animals (canine, feline, and equine) by focusing on the unmet needs of clinical veterinarians. We believe that we have identified and are developing diagnostics and therapeutics that have the potential to significantly improve the diagnosis and treatment of various diseases affecting companion animals. We believe that there are significant unmet medical needs for pets, and that the pet diagnostic and therapeutic segments of the animal health industry are likely to grow substantially as new diagnostic tools and treatments are identified, developed, and marketed specifically for companion animals.

Together with our strategic partners, we are developing three diagnostic platforms, a Bulk Acoustic Wave sensor-based veterinary point-of-care diagnostic platform for performing immunodiagnostic testing, a Raman spectroscopy-based point-of-care diagnostic platform for the detection of pathogens, and liquid biopsy assays for the detection of cancer, along with related consumables. We believe that the regulatory pathway to approval of companion animal diagnostics is significantly shorter than for similar diagnostic products intended for human use. In certain cases, pre-market clearance may be unnecessary, depending on the intended use of the diagnostic.

We also have identified several drugs that have proven safe and effective in humans that we are developing for use in canines and felines. We believe this development approach enables us to reduce the risks associated with obtaining regulatory approval for unproven product candidates and shortens the development timeline necessary to bring our product candidates to market. We have four drug product candidates in early development and have identified several other potential product candidates for further investigation.

In addition, we are investigating the development of alternative drug delivery technologies for our drug product candidates. Many of the human-approved therapeutics used in companion animals are only available in pill or injectable form. However, it can be difficult to give a companion animal an injection or to assure that the animal has swallowed a pill. As a result, we believe that compliance with treatment regimens is a significant problem for veterinarians and pet owners. The challenges associated with medicating pets are unique, and we believe that developing product candidates that can be easily taken by the pet or easily administered by pet owners will help increase compliance.

We are a development-stage company with no products approved for marketing and sale, and we have not generated any revenue. We have incurred significant net losses since our inception. We incurred net losses of \$2,845,679 and \$1,910,278 for the three months ended September 30, 2019 and September 30, 2018, respectively, and \$16,927,016 and \$8,226,005 for the nine months ended September 30, 2019 and September 30, 2018, respectively. These losses have resulted principally from costs incurred in connection with investigating and developing our product candidates, research and development activities and general and administrative costs associated with our operations. As of September 30, 2019, we had an accumulated deficit of \$49,200,803 and cash and cash equivalents of \$2,487,651.

For the foreseeable future, we expect to continue to incur losses, which will increase significantly from historical levels as we expand our product development activities, commercialize them if they do not require U.S. Food and Drug Administration's Center for Veterinary Medicine, or FDA-CVM, pre-market approval, seek regulatory approvals for our product candidates where required from the FDA-CVM or the United States Department of Agriculture Center for Veterinary Biologics, or the USDA-CVB.

For further information on the regulatory, business and product pipeline, please see the "Business" section of this Annual Report on Form 10-K. For further information on the risk factors, please see the "Risk Factors" section of the Annual Report on Form 10-K.

Revenue

We do not have any products approved for sale, have not generated any revenue from product sales since our inception and do not expect to generate any revenue from the sale of products in the near future. If our development efforts result in clinical success and regulatory approval or collaboration agreements with third parties for any of our product candidates, we may generate revenue from those product candidates.

Operating Expenses

Most of our operating expenses to date have been for the general and administrative activities related to general business activities, capital market activities and stock-based compensation, and research and development activities related to our lead product candidates.

Research and Development Expense

All costs of research and development are expensed in the period in which they are incurred. Research and development costs primarily consist of salaries and related expenses for personnel, fees paid to consultants, outside service providers, professional services, travel costs and materials used in clinical trials and research and development.

We have a point-of-care biosensor platform, TRUFORMA™ that we are developing for diagnosis and treatment management of disorders such as thyroid and adrenal disorders, a non-invasive diagnostic assay or blood test, that we are developing as an aid for veterinarians in diagnosing cancer in canines, and a diagnostic instrument and related assays, for the detection of pathogens in urine and fecal samples at the point-of-care.

We have four drug product candidates in development. Our lead drug product candidate is ZM-007, an oral suspension formulation of metronidazole targeting the treatment of acute diarrhea in small dog breeds and puppies under nine pounds or four kilograms. Our second drug product candidate is ZM-012, a novel tablet formulation of metronidazole, most commonly known as Flagyl™, its human pharmaceutical brand name, and a complementary formulation to ZM-007, targeting the treatment of acute diarrhea in larger dogs. Our third drug product candidate is ZM-006, a transdermal gel formulation of methimazole, most commonly known as Tapazole™, its human

pharmaceutical brand name, and Felimazole™, its feline pharmaceutical brand name, targeting hyperthyroidism in cats. Our fourth drug product candidate is ZM-011, a transdermal gel formulation of fluoxetine, most commonly known as Prozac™, its human pharmaceutical brand name.

General and Administrative Expense

General and administrative expense consists primarily of personnel costs, including salaries, related benefits and stock-based compensation for employees, consultants and directors. General and administrative expenses also include rent and other facilities costs and professional and consulting fees for legal, accounting, tax services and other general business services.

Professional Fees

Professional fees include attorney's fees, accounting fees and consulting fees incurred in connection with product investigation and analysis, regulatory analysis, government relations, audit, securities offerings, investor relations, and general corporate and intellectual property advice.

Income Taxes

As of December 31, 2018, we had net operating loss carryforwards for federal and state income tax purposes of \$11,522,620 and non-capital loss carryforwards for Canada of approximately \$13,353,870, which will begin to expire in fiscal year 2036. We have evaluated the factors bearing upon the realizability of our deferred tax assets, which are comprised principally of net operating loss carryforwards and non-capital loss carryforwards. We concluded that, due to the uncertainty of realizing any tax benefits as of December 31, 2018, a valuation allowance was necessary to fully offset our deferred tax assets.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The preparation of our consolidated financial statements and related disclosures requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and revenue, costs and expenses and related disclosures during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, including those described below. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Note 3 of the notes to our consolidated financial statements appearing elsewhere in this document, we believe that the estimates and assumptions involved in the following accounting policies may have the greatest potential impact on our financial statements.

JOBS Act

The Jumpstart Our Business Startups Act, or the JOBS Act, contains provisions that, among other things, reduce certain reporting requirements for an "emerging growth company." We have irrevocably elected not to avail ourselves of the JOBS Act provision that an emerging growth company may delay adopting new or revised accounting standards until such times as those standards apply to private companies.

In addition, we are in the process of evaluating the benefits of relying on the other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if as an "emerging growth company" we choose to rely on such exemptions, we may not be required to, among other things, (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404, and (ii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about

the audit and the financial statements (auditor discussion and analysis). These exemptions will apply until December 31, 2022 or until we no longer meet the requirements of being an “emerging growth company,” whichever is earlier.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the year. Actual results could differ from those estimates.

Areas where significant judgment is involved in making estimates are: the fair values of financial assets and liabilities; the determination of fair value of stock-based compensation; the useful lives and recoverability of property and equipment; deferred income taxes and forecasting future cash flows for assessing the going concern assumption.

Research and Development Costs

Research and development expenses comprise costs incurred in performing research and development activities, including salaries and benefits, safety and efficacy studies and contract manufacturing costs, contract research costs, patent procurement costs, materials and supplies and occupancy costs. Research and development activities include internal and external activities associated with research and development studies of current product candidates and advancing product candidates towards a goal of obtaining regulatory approval to manufacture and market the product candidate.

Research and development costs related to continued research and development programs are expensed as incurred in accordance with ASC topic 730.

Translation of Foreign Currencies

The functional currency, as determined by management, is U.S. dollars, which is also our reporting currency. Transactions denominated in currencies other than U.S. dollars and the monetary value of assets and liabilities are translated at the period end exchange rates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. All of the exchange gains or losses resulting from these other transactions are recognized in the consolidated statements of operations and comprehensive loss.

Stock-Based Compensation

We measure the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted if the fair value of the goods or services received by us cannot be reliably estimated.

We calculate stock-based compensation using the fair value method, under which the fair value of the options at the grant date is calculated using the Black-Scholes Option Pricing Model, and subsequently expensed over the vesting period of the option. The provisions of our stock-based compensation plans do not require us to settle any options by transferring cash or other assets, and therefore we classify the awards as equity. Stock-based compensation expense recognized during the period is based on the value of stock-based payment awards that are ultimately expected to vest. We estimate forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Volatility is determined based on volatilities of comparable companies when the Company does not have its own trading history. The expected term, which represents the period of time that options granted are expected to be outstanding, is estimated based on an average of the term of the options. The risk-free rate assumed in valuing the options is based on the Canadian treasury yield curve in effect at the time of grant for the expected term of the option. The expected dividend yield percentage at the date of grant is nil as we are not expected to pay dividends in the foreseeable future.

Loss Per Share

Basic loss per share, or EPS, is computed by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur

from common shares issuable through the exercise or conversion of stock options, restricted stock awards, warrants and convertible securities. In certain circumstances, the conversion of options, warrants and convertible securities are excluded from diluted EPS if the effect of such inclusion would be anti-dilutive.

The dilutive effect of stock options is determined using the treasury stock method. Stock options and warrants to purchase our common shares issued during the period were not included in the computation of diluted EPS, as the effect would be anti-dilutive.

Comprehensive Loss

We follow ASC topic 220. This statement establishes standards for reporting and display of comprehensive (loss) income and its components. Comprehensive loss is net loss plus certain items that are recorded directly to shareholders' equity. We currently have no other comprehensive loss items.

Results of Operations

Three and nine months ended September 30, 2019 compared to three and nine months ended September 30, 2018

Our results of operations for the three and nine months ended September 30, 2019 and September 30, 2018 are as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2019	2018	Change		2019	2018	Change	
	\$	\$	\$	%	\$	\$	\$	%
Expenses								
Research and development	962,463	630,371	332,092	53%	9,555,345	3,765,332	5,790,013	154%
General and administrative	1,404,952	834,570	570,382	68%	5,557,661	3,243,232	2,314,429	71%
Professional fees	279,237	293,484	(14,247)	-5%	1,230,151	1,001,886	228,265	23%
Amortization - right-of-use asset	127,345	-	127,345	N/A	382,035	-	382,035	N/A
Amortization - intangible	273	431	(158)	-37%	810	1,810	(1,000)	-55%
Depreciation	70,096	86,162	(16,066)	-19%	201,075	150,320	50,755	34%
Loss from operations	2,844,366	1,845,018	999,348	54%	16,927,077	8,162,580	8,764,497	107%
Loss on fixed assets	-	69,382	(69,382)	N/A	1,308	69,382	(68,074)	-98%
Interest expense	-	-	-	N/A	18,338	-	18,338	N/A
Gain on settlement of liabilities	-	-	-	N/A	(19,737)	-	(19,737)	N/A
Foreign exchange gain	1,313	(4,122)	5,435	-132%	30	(5,957)	5,987	-101%
Loss before income taxes	2,845,679	1,910,278	935,401	49%	16,927,016	8,226,005	8,701,011	106%
Income tax expense	-	-	-	N/A	-	-	-	N/A
Net loss and comprehensive loss	2,845,679	1,910,278	935,401	49%	16,927,016	8,226,005	8,701,011	106%

Revenue

We did not generate any revenue during the three and nine months ended September 30, 2019 and September 30, 2018.

Research and Development

Research and development expense for the three months ended September 30, 2019 was \$962,463 compared to \$630,371 for the three months ended September 30, 2018, an increase of \$332,092 or 53%. The increase was primarily due to an increase in contracted expenditures of \$401,970 related to the development of the five assays for TRUFORMA™.

Research and development expense for the nine months ended September 30, 2019 was \$9,555,345 compared to \$3,765,332 for the nine months ended September 30, 2018, an increase of \$5,790,013 or 154%. The increase was primarily due to increases in license fees of \$4,198,328, and contracted expenditures of \$1,506,324. The license fees

increase related to \$5,000,000 of expenses recognized upon the achievement of development milestones relating to TRUFORMA™ under our development and supply agreement with Qorvo Biotechnologies, LLC (“Qorvo”), and \$736,841 of additional milestone expenses relating to our development of ZM-017 under our license and supply agreement with Celsee Diagnostics, Inc. The increase was partially offset by no recurrence from the 2018 period of an up-front licensing fee of \$1,738,513 to Seraph Biosciences, Inc. (“Seraph”), upon the execution of our development, commercialization and exclusive distribution agreement, and \$333,247 of additional development fees due to Seraph. The contract expenditures increase related to the development of the five assays for TRUFORMA™.

General and Administrative

General and administrative expense for the three months ended September 30, 2019 was \$1,404,952, compared to \$834,570 for the three months ended September 30, 2018, an increase of \$570,382 or 68%. The increase was due to an increase in salaries, bonus and benefits of \$394,673, which included share-based compensation expense of \$197,988 as a result of the granting of options to purchase an aggregate of 1,500,000 common shares, all of which vested upon the dates of grant. Other increases in salaries, bonus and benefits are due to increases in sales, marketing and other administrative salaries and benefits. Travel and accommodation increased by \$162,502 and marketing and investor relations increased by \$111,841, which were partially offset by rent decrease of \$82,860 which was reclassified to amortization of right-of-use asset.

General and administrative expense for the nine months ended September 30, 2019 was \$5,557,661, compared to \$3,243,232 for the nine months ended September 30, 2018, an increase of \$2,314,429 or 71%. The increase was primarily due to a \$2,465,139 increase in salaries, bonus and benefits, which included share-based compensation expense of \$2,539,092. After adjusting for the share-based compensation expense, general and administrative expense decreased \$224,663 or 7%, primarily as a result of the reclassification of rent to amortization of right-of-use asset of \$254,690 and regulatory fees decrease of \$150,271, partially offset by marketing and investor relations increase of \$120,101 and travel and accommodation increase of \$90,371.

Professional Fees

Professional fees for the three months ended September 30, 2019 were \$279,237, compared to \$293,484 for the three months ended September 30, 2018, a decrease of \$14,247 or 5%. The decrease was due to a reduction in legal and consulting fees associated with SEC and related filings.

Professional fees for the nine months ended September 30, 2019 were \$1,230,151, compared to \$1,001,886 for the nine months ended September 30, 2018, an increase of \$228,265 or 23%. The increase was primarily due to increased expenses related to the filing of our S-3 resale registration statement and our S-8 registration statement.

Net Loss

Our net loss for the three months ended September 30, 2019 was \$2,845,679 or \$0.03 per share, compared with a net loss of \$1,910,278 or \$0.02 per share, for the three months ended September 30, 2018, an increase of \$935,401 or 49%. The net loss in each period was attributed to the matters described above.

Our net loss for the nine months ended September 30, 2019 was \$16,927,016 or \$0.16 per share, compared with a net loss of \$8,226,005 or \$0.09 per share, an increase of \$8,701,011 or 106%. The net loss in each period was attributed to the matters described above. We expect to continue to record net losses in future periods until such time as we have sufficient revenue from our product candidates to offset our operating expenses.

Cash Flows

Three and nine months ended September 30, 2019 compared to three and nine months ended September 30, 2018

The following table shows a summary of our cash flows for the periods set forth below:

	Three months ended September 30,				Nine months ended September 30,			
	2019	2018	Change		2019	2018	Change	
	\$	\$	\$	%	\$	\$	\$	%
Cash flows used in operating activities	(3,910,078)	(3,371,059)	(539,019)	16%	(13,767,933)	(7,819,347)	(5,948,586)	76%
Cash flows (used) from financing activities	(1,414)	86,388	(87,802)	-102%	14,972,319	5,503,385	9,468,934	172%
Cash flows used in investing activities	(582,437)	(467,675)	(114,762)	25%	(657,000)	(605,368)	(51,632)	9%
Increase in cash	(4,493,929)	(3,752,346)	(741,583)	20%	547,386	(2,921,330)	3,468,716	-119%
Cash and cash equivalents, beginning of period	6,981,580	4,279,163	2,702,417	63%	1,940,265	3,448,147	(1,507,882)	-44%
Cash and cash equivalents, end of period	2,487,651	526,817	1,960,834	372%	2,487,651	526,817	1,960,834	372%

Operating Activities

Net cash used in operating activities for the three months ended September 30, 2019 was \$3,910,078, compared to \$3,371,059 for the three months ended September 30, 2018, an increase of \$539,019 or 16%. The increase in net cash used in operating activities resulted primarily from an increase in our net loss, cash used in decreasing accounts payable and accrued liabilities of \$1,378,710 and cash used in increasing prepaid expenses of \$122,315, partially offset by non-cash impacts of stock-based compensation of \$197,988, amortization – right-of-use asset of \$127,345 and depreciation of \$70,096.

Net cash used in operating activities for the nine months ended September 30, 2019 was \$13,767,933, compared to \$7,819,347 for the nine months ended September 30, 2018, an increase of \$5,948,586 or 76%. The largest use of cash in the current period was the payment of \$5,000,000 upon the achievement of development milestones relating to TRUFORMA™ under our development and supply agreement with Qorvo. Other increases in cash used in operating activities resulted primarily from other increases in our net loss, cash used in decreasing accounts payable and accrued liabilities of \$798,994, partially offset by non-cash impacts of stock-based compensation of \$2,539,092, stock issued for services of \$792,104, amortization – right-of-use asset of \$382,035, depreciation of \$201,075 and cash provided by decreasing prepaid expenses of \$140,695.

Net cash used in operating activities for the three and nine months ended September 30, 2018 was \$3,371,059, and \$7,819,347, which resulted primarily from our net loss of \$1,910,278 and \$8,226,005, respectively. The largest use of cash stemmed from increases in deposits of \$1,281,617 and \$1,311,463, respectively.

Financing Activities

Net cash used in financing activities for the three months ended September 30, 2019 was \$1,414, compared to cash from financing activities of \$86,388 for the three months ended September 30, 2018 a decrease of \$87,802 or 102%. The decrease in cash used from financing activities resulted primarily from a reduction in financing activities as compared to the prior period.

Net cash from financing activities for the nine months ended September 30, 2019 was \$14,972,319, compared to \$5,503,385 for the nine months ended September 30, 2018 an increase of \$9,468,934 or 172%. The increase in cash from financing activities resulted primarily from \$12,000,000 in proceeds from the private sale of preferred shares, \$3,000,000 in proceeds from the underwritten public offering of common stock, net of financing costs, and \$600,000 in proceeds from the exercise of stock options.

Net cash from financing activities for the three and nine months ended September 30, 2018 was \$86,388 and \$5,503,385, which resulted from cash proceeds from financing and the exercise of stock options.

Investing Activities

Net cash used in investing activities for the three months ended September 30, 2019 was \$582,437, compared to \$467,675 for the three months ended September 30, 2018, an increase of \$114,762 or 25%. The increase in net cash used in investing activities resulted primarily from costs associated with the digital data platform, the construction of marketing assets, and the capitalization of integration costs associated with the implementation of an ERP system, compared to the prior period build-out of office space and purchases of lab and office equipment for our Ann Arbor facility completed in the three months ended September 30, 2018.

Net cash used in investing activities for the nine months ended September 30, 2019 was \$657,000, compared to \$605,368 for the nine months ended September 30, 2018, an increase of \$51,632 or 9%. The increase in net cash used in investing activities resulted primarily from costs associated with the digital data platform, the construction of marketing assets, and the capitalization of integration costs associated with the implementation of an ERP system, compared to the prior period build-out of office space and purchases of lab and office equipment for our Ann Arbor facility completed in the nine months ended September 30, 2018.

Liquidity and Capital Resources

We have incurred losses and negative cash flows from operations and have not generated any revenue since our inception in May 2015. As of September 30, 2019, we had an accumulated deficit of \$49,200,803. We have funded our working capital requirements primarily through the sale of our preferred and common shares and the exercise of stock options.

As at September 30, 2019, the Company had cash of \$2,487,651, prepaid expenses and deposits of \$1,497,425, and accounts receivable of \$75,992. Current assets amounted to \$4,061,068 with current liabilities of \$1,577,525, resulting in working capital (defined as current assets minus current liabilities) of \$2,483,543.

In the second quarter of 2019, we sold \$12,000,000 of our Series 1 Preferred Shares to an accredited investor in a private placement at a purchase price of \$1,000,000 per Series 1 Preferred Share. Each Series 1 Preferred Share has a stated value of \$1,000,000. The Series 1 Preferred Shares do not have voting rights except to the extent required by applicable law and are not convertible into the Company's common shares. Holders of the Series 1 Preferred Shares will not be entitled to dividends but, in lieu thereof, will receive Net Sales Payments until such time as the holders have received total Net Sales Payments equal to 9 times the aggregate stated value of the outstanding Series 1 Preferred Shares. We will have the right to redeem the outstanding Series 1 Preferred Shares at any time at a redemption price equal to 9 times the aggregate stated value of the Series 1 Preferred Shares outstanding less the aggregate amount of the Net Sales Payments paid (the "Redemption Amount"). Upon any dissolution, liquidation or winding up, whether voluntary or involuntary, holders of Series 1 Preferred Shares will be entitled to a liquidation preference equal to the stated value of the Series 1 Preferred Shares less the Net Sales Payments paid on the Series 1 Preferred Shares. In the event of a fundamental transaction (defined in the Series 1 Preferred Shares to include an amalgamation, merger or other business combination transaction involving our company in which our shareholders do not have the right to cast more than 50% of the votes that may be cast for the election of directors, or a sale, lease or other disposition of the properties and/or assets of our company as an entirety or substantially as an entirety to a third party), the holders of the Series 1 Preferred Shares will be entitled to receive consideration for their Series 1 Preferred Shares equal to a multiple of the stated value of the Series 1 Preferred Shares ranging from 5.0 to 9.0 depending on the timing of the fundamental transaction, subject to a cap equal to the Redemption Amount.

In December 2018, we entered into an at-the-market equity offering sales agreement with Cantor Fitzgerald & Co. under which we may sell pursuant to the universal shelf registration statement common shares in the United States only, from time to time, for up to \$50.0 million and was amended on March 25, 2019 to \$10.0 million in aggregate sales proceeds in "at the market" transactions. No sales of common shares were made under the sales agreement in the second and third quarters, and the program was inactive at September 30, 2019.

On October 17, 2017 we entered into a five-year \$5,000,000 unsecured working capital facility with Equidebt LLC, one of our shareholders (the "Equidebt Facility"). Amounts borrowed under the Equidebt Facility bear interest at a rate of 14% per annum payable at maturity. All amounts borrowed under the Equidebt Facility become due and payable on October 17, 2022. We can make two borrowings per month under the Equidebt Facility, each of which must be for a minimum of \$250,000. The Equidebt Facility is unsecured; however Gerald A. Solensky Jr., our Chairman of the Board, President and Chief Executive Officer, has personally guaranteed our obligations under the Equidebt Facility. As of September 30, 2019, no amounts were outstanding under the Equidebt Facility.

If we raise additional funds by issuing equity securities, our existing security holders will likely experience dilution, and the incurring of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict operations. In the event that we are unable to obtain sufficient capital to meet our working capital requirements, we may be required to change or curtail current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated. In

such an event, we may not be able to take advantage of business opportunities, and may have to terminate or delay safety and efficacy studies, curtail our product development programs, or sell or assign rights to our product candidates, products and technologies.

Our future capital requirements depend on many factors, including, but not limited to:

- the scope, progress, results and costs of researching and developing our current or future product candidates;
- the timing of, and the costs involved in, obtaining regulatory approvals for any of our current or future product candidates;
- the number and characteristics of the product candidates we pursue;
- the cost of manufacturing our current and future product candidates and any products we successfully commercialize;
- the cost of commercialization activities if any of our current or future product candidates are approved for sale, including marketing, sales, service, customer support and distribution costs;
- the expenses needed to attract and retain skilled personnel;
- the costs associated with being a public company;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of such agreements; and
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing possible patent claims, including litigation costs and the outcome of any such litigation.

Off Balance Sheet Arrangements

Since inception, we have not engaged in the use of any off-balance sheet arrangements, such as structured finance entities, special purpose entities or variable interest entities.

Contingencies and Legal Proceedings

On November 1, 2019, Heska Corporation (“Heska”) filed a complaint for damages and injunctive relief (the “Complaint”) in the United States District Court for the Middle District of North Carolina, Case 1:19-cv-01108-LCB-JLW, against Qorvo US, Inc. (“Qorvo US”), Qorvo Biotechnologies, LLC (“Qorvo Biotech” and, together with Qorvo US, “Qorvo”) and the Company (collectively with Qorvo, the “Defendants”). The Complaint alleges, among other things, that the Defendants improperly obtained Heska’s trade secrets and confidential information and/or conspired to use improper means to misappropriate Heska’s trade secrets related to an instrument and related consumable products for performing immunoassay analysis of biomarkers and other substances. The Complaint seeks compensatory and exemplary damages, as well as preliminary and permanent injunctive relief to prevent the Defendants from commercializing the Company’s TRUFORMA™ diagnostic instrument. For the reasons set forth below, the Company believes that the allegations in the Complaint have no merit and will not have a material adverse effect on the Company’s business, results of operations or financial condition, and the Company reaffirms its intention to commence the commercialization of its TRUFORMA™ platform in the first quarter of 2020.

Under the terms of the Development and Supply Agreement, dated November 26, 2018, by and between Qorvo Biotech and the Company (the “Qorvo Agreement”), Qorvo Biotech agreed to indemnify the Company and certain related parties against claims alleging infringement or misappropriation of third-party intellectual property rights, subject to certain limitations and exceptions. Qorvo Biotech has notified the Company that Qorvo Biotech has assumed the defense of the Complaint and will indemnify the Company for losses arising from the Complaint in

accordance with the terms of the Qorvo Agreement. Qorvo Biotech has further advised the Company that it intends to mount a vigorous defense to the claims in the Complaint, and that it believes the allegations contained in the Complaint are without merit for many reasons, including without limitation, the following:

- The Complaint fails to identify any Heska proprietary trade secret technology that is contained in the TRUFORMA™ platform, and Qorvo and Zomedica are aware of no such technology; and
- Two United States courts have previously considered many of the same allegations contained in the Complaint, and after extensive motion practice, refused to grant Heska's requests to take discovery from Qorvo relating to Heska's claims. During those proceedings, Heska did not demonstrate that Qorvo was using any Heska proprietary trade secret technology.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued new guidance, ASU No. 2016-02, Leases (Topic 842). The new standard establishes a right-of-use model ("ROU") that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. Additional qualitative and quantitative disclosures are also required by the new guidance. Topic 842 is effective for annual reporting periods (including interim reporting periods) beginning after December 15, 2018. Early adoption is permitted.

A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. The Company adopted the new standard with an initial application date of January 1, 2019 and used the effective date as its date of initial application. Consequently, financial information was not updated, and the disclosures required under the new standard were not provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. The Company has elected the 'package of practical expedients', which permits the Company not to reassess under the new standard prior conclusions about lease identification, lease classification and initial direct costs. The Company has not elected the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to the Company.

On August 29, 2018, the FASB issued ASU 2018-15, which amends ASC 350-40 to address a customer's accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. ASU 2018-15 aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Specifically, the ASU amends ASC 350 to include in its scope implementation costs of a CCA that is a service contract and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in a CCA that is considered a service contract. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2019. Early adoption is permitted.

The Company has chosen to adopt this guidance during the three months ended September 30, 2019.

Zomedica Pharmaceuticals Corp.

Condensed unaudited interim consolidated financial statements

For the three and nine months ended September 30, 2019 and 2018

(Expressed in United States Dollars, except as otherwise noted)

Zomedica Pharmaceuticals Corp.

Condensed unaudited interim consolidated balance sheets

As at September 30, 2019 and December 31, 2018

(Stated in United States dollars)

		September 30,	December 31,
	Note	2019	2018
Assets			
Current assets:			
Cash and cash equivalents		\$ 2,487,651	\$ 1,940,265
Prepaid expenses and deposits	5	1,497,425	1,867,034
Trade and other receivable		75,992	53,659
		4,061,068	3,860,958
Prepaid expenses and deposits	5	-	1,442,415
Property and equipment	6	805,218	717,088
Right-of-use asset	8	1,231,003	-
Intangible assets	7	513,735	13,058
		\$ 6,611,024	\$ 6,033,519

Liabilities and shareholders' equity

Current liabilities:

Accounts payable and accrued liabilities		\$ 1,577,525	\$ 2,376,519
		1,577,525	2,376,519

Shareholders' equity:

Capital stock			
Series 1 preferred shares, without par value; 20 shares authorized (2018 - nil) Issued and outstanding			
12 series 1 preferred shares (2018 - nil)	10	11,961,397	-
Unlimited common shares without par value; Issued and outstanding			
108,038,398 common shares (2018 - 97,598,898)	11	38,647,822	30,410,648
Common stock subscribed		-	4,280,000
Additional paid-in capital	12	3,625,083	1,240,139
Accumulated deficit		(49,200,803)	(32,273,787)
		5,033,499	3,657,000
		\$ 6,611,024	\$ 6,033,519

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 13)

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

Zomedica Pharmaceuticals Corp.

Condensed unaudited interim consolidated statements of operations and comprehensive loss
For the three and nine months ended September 30, 2019 and 2018
(Stated in United States dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Note	2019	2018	2019	2018
Expenses:					
Research and development	16	\$ 962,463	\$ 630,371	\$ 9,555,345	\$ 3,765,332
General and administrative	16	1,404,952	834,570	5,557,661	3,243,232
Professional fees	16	279,237	293,484	1,230,151	1,001,886
Amortization - right-of-use asset	8	127,345	-	382,035	-
Amortization - intangible asset	7	273	431	810	1,810
Depreciation	6	70,096	86,162	201,075	150,320
Loss from operations		2,844,366	1,845,018	16,927,077	8,162,580
Loss on fixed assets		-	69,382	1,308	69,382
Interest expense		-	-	18,338	-
Gain on settlement of liabilities	11	-	-	(19,737)	-
Foreign exchange gain		1,313	(4,122)	30	(5,957)
Loss before income taxes		2,845,679	1,910,278	16,927,016	8,226,005
Income tax expense		-	-	-	-
Net loss and comprehensive loss		\$ 2,845,679	\$ 1,910,278	\$ 16,927,016	\$ 8,226,005
Weighted average number of common shares - basic and diluted		108,038,398	94,514,905	105,711,459	92,534,667
Loss per share - basic and diluted		\$ (0.03)	\$ (0.02)	\$ (0.16)	\$ (0.09)

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

Zomedica Pharmaceuticals Corp.

Condensed unaudited interim consolidated statements of shareholders' equity
For the three and nine months ended September 30, 2019 and 2018
(Stated in United States dollars)

	Note	Series 1 preferred stock		Common stock		Common stock subscribed	Additional paid-in capital	Accumulated deficit	Total
		Shares	Amount	Shares	Amount				
Balance at December 31, 2017		-	\$ -	90,225,869	\$ 18,244,659	\$ -	\$ 1,768,526	\$ (15,626,100)	\$ 4,387,085
Stock issuance for services		-	-	641,717	1,238,513	-	-	-	1,238,513
Stock issuance for financing, net of cost		-	-	1,861,627	3,966,362	-	-	-	3,966,362
Stock-based compensation	12	-	-	-	-	-	7,288	-	7,288
Stock issuance due to exercise of options	11,12	-	-	1,866,996	1,923,922	-	(386,898)	-	1,537,024
Net loss		-	-	-	-	-	-	(8,226,005)	(8,226,005)
Balance at September 30, 2018		-	\$ -	94,596,209	\$ 25,373,456	\$ -	\$ 1,388,916	\$ (23,852,105)	\$ 2,910,267
Balance at December 31, 2018		-	\$ -	97,598,898	\$ 30,410,648	\$ 4,280,000	\$ 1,240,139	\$ (32,273,787)	\$ 3,657,000
Stock issuance for services	11	-	-	707,236	792,104	-	-	-	792,104
Stock issuance for financing, net of cost	10,11	12	11,961,397	9,337,529	6,690,922	(4,280,000)	-	-	14,372,319
Stock-based compensation	12	-	-	-	-	-	2,539,092	-	2,539,092
Stock issuance due to exercise of options	11,12	-	-	394,735	754,148	-	(154,148)	-	600,000
Net loss		-	-	-	-	-	-	(16,927,016)	(16,927,016)
Balance at September 30, 2019		12	\$ 11,961,397	108,038,398	\$ 38,647,822	\$ -	\$ 3,625,083	\$ (49,200,803)	\$ 5,033,499

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

Zomedica Pharmaceuticals Corp.

Condensed unaudited interim consolidated statements of cash flows
For the three and nine months ended September 30, 2019 and 2018
(Stated in United States dollars)

	Note	Three months ended September 30,		Nine months ended September	
		2019	2018	2019	2018
Cash flows used in operating activities:					
Net loss for the period		\$ (2,845,679)	\$ (1,910,278)	\$ (16,927,016)	\$ (8,226,005)
Adjustments for					
Depreciation	6	70,096	86,162	201,075	150,320
Amortization - intangible assets	7	273	431	810	1,810
Amortization - right-of-use-asset	8	127,345	-	382,035	-
Loss on fixed assets	6	-	69,382	1,308	69,382
Stock issued for services	11	-	-	792,104	1,238,513
Stock-based compensation	12	197,988	-	2,539,092	7,288
Change in non-cash operating working capital					
Trade and other receivable		19,558	11,885	(22,333)	(9,470)
Prepaid expenses		(122,315)	56,399	140,695	(191,365)
Deposits		21,366	(1,281,617)	(76,709)	(1,311,463)
Accounts payable and accrued liabilities		(1,378,710)	(403,423)	(798,994)	451,643
		(3,910,078)	(3,371,059)	(13,767,933)	(7,819,347)
Cash flows (used) from financing activities:					
Cash proceeds from financing of preferred shares	10	-	-	12,000,000	-
Cash proceeds from financing of common shares	11	-	-	3,000,000	4,002,496
Cash received from stock option exercises	12	-	98,716	600,000	1,537,024
Cash paid on stock issuance costs	10,11	(1,414)	(12,328)	(627,681)	(36,135)
		(1,414)	86,388	14,972,319	5,503,385
Cash flows used in investing activities:					
Investment in intangibles	6	(501,487)	-	(501,487)	-
Investment in property and equipment	6	(80,950)	(467,675)	(155,513)	(605,368)
		(582,437)	(467,675)	(657,000)	(605,368)
Increase (decrease) in cash and cash equivalents		(4,493,929)	(3,752,346)	547,386	(2,921,330)
Cash and cash equivalents, beginning of period		6,981,580	4,279,163	1,940,265	3,448,147
Cash and cash equivalents, end of period		\$ 2,487,651	\$ 526,817	\$ 2,487,651	\$ 526,817
Supplemental cash flow information:					
Interest paid		\$ 12,164	\$ -	\$ 18,338	\$ -

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

Zomedica Pharmaceuticals Corp.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended September 30, 2019 and 2018
(Stated in United States dollars)

1. Nature of operations and going concern

Zomedica Pharmaceuticals Corp. ("Zomedica" or the "Company") was incorporated on January 7, 2013 under the *Business Corporations Act* (Alberta) as Wise Oakwood Ventures Inc. ("WOW") and was classified as a capital pool company, as defined in Policy 2.4 of the TSX Venture Exchange. ZoMedica Pharmaceuticals Inc. was incorporated on May 14, 2015 under the *Canada Business Corporations Act*.

On April 21, 2016, the Company closed its qualifying transaction ("Transaction"), consisting of the acquisition of ZoMedica Pharmaceuticals Inc. ("ZoMedica") pursuant to a three-cornered amalgamation, whereby ZoMedica was amalgamated with 9674128 Canada Inc. (which was wholly-owned by WOW) and common shares and options of the Company were issued to former holders of ZoMedica securities as consideration. The amalgamated company changed its name to Zomedica Pharmaceuticals Ltd. and WOW subsequently changed its name to Zomedica Pharmaceuticals Corp. Prior to completion of the Transaction, WOW consolidated its common shares on the basis of the one post-consolidation common share for every 2.5 pre-consolidation common shares. The Transaction constituted WOW's qualifying transaction under TSX Venture Exchange Policy 2.4 – *Capital Pool Companies*. The shares of Zomedica Pharmaceuticals Corp. began trading on the TSX Venture Exchange under the new symbol "ZOM" on Monday, May 2, 2016. On June 21, 2016, the Company filed Articles of Amalgamation and vertically amalgamated with its wholly-owned subsidiary, Zomedica Pharmaceuticals Ltd.

Zomedica has one corporate subsidiary, Zomedica Pharmaceuticals, Inc., a Delaware company whose results and operations are included in these consolidated financial statements. The Company is a biopharmaceutical company targeting health and wellness solutions for the companion pet through a ground-breaking approach that focuses on the needs of the veterinarians themselves. Zomedica's head office is located at 100 Phoenix Drive, Suite 190, Ann Arbor, MI 48108 and its registered office is located at Suite 1250, 639 – 5th Avenue S.W., Calgary, Alberta T2P 0M9.

On November 20, 2017, Zomedica announced that its registration statement on Form S-1 was declared effective by the U.S. Securities and Exchange Commission and on November 21, 2017, the Company's common shares began trading on the NYSE American under the symbol "ZOM".

Going concern

The consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months. The Company has incurred losses from operations since inception and has an accumulated deficit of \$49,200,803 as at September 30, 2019 (December 31, 2018 - \$32,273,787). The Company has funded its research and development ("R&D") activities principally through the issuance of securities and loans from related parties. There is no certainty that such funding will be available going forward. These conditions raise substantial doubt about its ability to continue as a going concern and realize its assets and pay its liabilities as they become due.

In order for the Company to continue as a going concern and fund any significant expansion of its operations or R&D activities, the Company will require significant additional capital. The Company's ultimate success will depend on whether its future product candidates receive the necessary regulatory approval and it is able to successfully market approved products. The Company cannot be certain that it will be able to receive regulatory approval for any of its future product candidates, or that it will reach the level of sales and revenues necessary to achieve and sustain profitability.

The availability of equity or debt financing will be affected by, among other things, the results of the Company's research and development, its ability to obtain regulatory approvals, the market acceptance of its products, the state of the capital markets generally, strategic alliance agreements, and other relevant commercial considerations. In addition, if the Company raises additional funds by issuing equity securities,

Zomedica Pharmaceuticals Corp.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended September 30, 2019 and 2018
(Stated in United States dollars)

1. Nature of operations and going concern (continued)

Going concern (continued)

its then existing security holders will likely experience dilution, and the incurring of indebtedness would result in increased debt service obligations and could require the Company to agree to operating and financial covenants that would restrict its operations. Any failure on its part to raise additional funds on terms favorable to the Company or at all, may require the Company to significantly change or curtail its current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in the Company not taking advantage of business opportunities.

2. Basis of preparation

The accounting policies set out below have been applied consistently in the condensed unaudited interim consolidated financial statements.

Basis of consolidation

These condensed unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned operating subsidiary, Zomedica Pharmaceuticals, Inc.

All inter-company accounts and transactions have been eliminated on consolidation.

3. Significant accounting policies

Use of estimates

The preparation of the condensed unaudited interim consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed unaudited interim consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Areas where significant judgment is involved in making estimates are: the fair values of financial assets and liabilities; the determination of fair value of stock-based compensation; the useful lives of property and equipment; deferred income taxes and forecasting future cash flows for assessing the going concern assumption.

Basis of measurement

The condensed unaudited interim consolidated financial statements have been prepared on the historical cost basis except as otherwise noted.

Functional and reporting currencies

The Company's and subsidiary's functional currency, as determined by management, is US dollars, which is also the Company's reporting currency.

The accounting policies set out below have been applied consistently to all periods and companies presented in the condensed unaudited interim consolidated financial statements.

Zomedica Pharmaceuticals Corp.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended September 30, 2019 and 2018
(Stated in United States dollars)

3. Significant accounting policies (continued)

Research and development

Research and development costs related to continued research and development programs are expensed as incurred in accordance with ASC topic 730.

Share issue costs

Share issue costs are recorded as a reduction of the proceeds from the issuance of capital stock.

Translation of foreign currencies

In respect of other transactions denominated in currencies other than the Company and its wholly owned operating subsidiaries' functional currencies, the monetary assets and liabilities are translated at the period end rates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. All of the exchange gains or losses resulting from these other transactions are recognized in the condensed unaudited interim consolidated statements of operations and comprehensive loss.

Stock-based compensation

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted if the fair value of the goods or services received by the Company cannot be reliably estimated.

The Company calculates stock-based compensation using the fair value method, under which the fair value of the options at the grant date is calculated using the Black-Scholes Option Pricing Model, and subsequently expensed over the vesting period of the option. The provisions of the Company's stock-based compensation plans do not require the Company to settle any options by transferring cash or other assets, and therefore the Company classifies the awards as equity. Stock-based compensation expense recognized during the period is based on the value of stock-based payment awards that are ultimately expected to vest.

The Company estimates forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Loss per share

Basic loss per share ("EPS") is computed by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur from common shares issuable through the exercise or conversion of stock options, restricted stock awards, warrants and convertible securities. In certain circumstances, the conversion of options are excluded from diluted EPS if the effect of such inclusion would be anti-dilutive.

The dilutive effect of stock options is determined using the treasury stock method. Stock options to purchase common shares of the Company during the period were not included in the computation of diluted EPS because the Company has incurred a loss for the three and nine months ended September 30, 2019 as the effect would be anti-dilutive.

Zomedica Pharmaceuticals Corp.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended September 30, 2019 and 2018
(Stated in United States dollars)

3. Significant accounting policies (continued)

Comprehensive loss

The Company follows ASC topic 220. This statement establishes standards for reporting and display of comprehensive (loss) income and its components. Comprehensive loss is net loss plus certain items that are recorded directly to shareholders' equity. The Company has no other comprehensive loss items.

Recently adopted accounting pronouncements

In February 2016, the FASB issued new guidance, ASU No. 2016-02, Leases (Topic 842). The new standard establishes a right-of-use model ("ROU") that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. Additional qualitative and quantitative disclosures are also required by the new guidance. Topic 842 is effective for annual reporting periods (including interim reporting periods) beginning after December 15, 2018. Early adoption is permitted.

A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. The Company adopted the new standard with an initial application date of January 1, 2019 and used the effective date as its date of initial application. Consequently, financial information was not updated, and the disclosures required under the new standard were not provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. The Company has elected the 'package of practical expedients', which permits the Company not to reassess under the new standard prior conclusions about lease identification, lease classification and initial direct costs. The Company has not elected the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to the Company.

On August 29, 2018, the FASB issued ASU 2018-15, which amends ASC 350-40 to address a customer's accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. ASU 2018-15 aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Specifically, the ASU amends ASC 350 to include in its scope implementation costs of a CCA that is a service contract and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in a CCA that is considered a service contract. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2019. Early adoption is permitted.

The Company has chosen to adopt this guidance during the three months ended September 30, 2019.

Zomedica Pharmaceuticals Corp.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended September 30, 2019 and 2018
(Stated in United States dollars)

4. Critical accounting judgments and key sources of estimation uncertainty

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Critical areas of estimation and judgements in applying accounting policies include the following:

Going concern

These condensed unaudited interim consolidated financial statements have been prepared in accordance with U.S. GAAP on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment in determining assumptions for cash flow projections, such as anticipated financing, anticipated sales and future commitments to assess the Company's ability to continue as a going concern. A critical judgment is that the Company continues to raise funds going forward and satisfy their obligations as they become due.

Stock-based payments

The Company estimates the fair value of convertible securities such as options using the Black-Scholes option-pricing model which requires significant estimation around assumptions and inputs such as expected term to maturity, expected volatility and expected dividends.

Useful lives of property and equipment

The Company reviews the estimated useful lives of property and equipment with definite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings. During the three and nine months ended September 30, 2019, the Company was not required to adjust the useful lives of any assets based on the factors described above. Long-lived assets are reviewed for impairment when events or circumstances indicate that the carrying value of an asset may not be recoverable.

Deferred income taxes

The calculation of deferred income taxes is based on assumptions which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carry forward and of the balances in various tax pools. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements from changes in such estimates in future period could be material. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets are reviewed at each balance sheet date and adjusted to the extent that it is no longer probable that the related tax benefit will be realized.

Zomedica Pharmaceuticals Corp.

Notes to the condensed unaudited interim consolidated financial statements

For the three and nine months ended September 30, 2019 and 2018

(Stated in United States dollars)

5. Prepaid expenses and deposits

	September 30, 2019	December 31, 2018
Prepaid rent (i)	\$ -	\$ 1,613,038
Deposits (ii)	1,202,814	1,596,104
Prepaid FDA fees	31,497	-
Prepaid marketing (iii)	36,596	37,465
Prepaid insurance (iii)	156,044	33,372
Other (iv)	70,474	29,470
Total	\$ 1,497,425	\$ 3,309,449

- (i) On July 31, 2018, the Company entered into an amended lease agreement with Wickfield Phoenix LLC for an additional 18,640 square feet of office space. The Company prepaid the full outstanding balance of \$1,269,073. As of January 1, 2019, the balance of the prepaid rent, inclusive of the original and amended lease amounts was \$1,613,038. In accordance with ASC 842, this amount was reclassified as a right-of-use asset in the consolidated balance sheet. As of December 31, 2018, the Company classified \$509,380 as a current asset in the consolidated balance sheet;
- (ii) Deposits include payments made to vendors in advance and are primarily associated with research activity, deposits for leasehold improvements, and equipment purchases. As of September 30, 2019, and December 31, 2018, the Company classified \$1,202,814 and \$922,347 as a current asset in the consolidated balance sheet, respectively;
- (iii) As of September 30, 2019, and December 31, 2018, all amounts were classified as a current asset in the consolidated balance sheet;
- (iv) Other prepaid expenses and deposits are comprised of subscription payments and software licensing. As of September 30, 2019, and December 31, 2018, the Company classified all amounts as a current asset in the consolidated balance sheet.

Zomedica Pharmaceuticals Corp.

Notes to the condensed unaudited interim consolidated financial statements

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6. Property and equipment

	Computer equipment	Furniture and equipment	Laboratory equipment	Leasehold improvements	Total
Cost					
Balance at December 31, 2017	\$ 151,155	\$ 76,058	\$ 245,729	\$ 36,957	\$ 509,899
Additions	18,847	105,821	246,375	256,954	627,997
Disposals	-	-	(139,467)	(10,936)	(150,403)
Balance at December 31, 2018	170,002	181,879	352,637	282,975	987,493
Additions	218,076	3,414	3,350	65,673	290,513
Disposals	(2,210)	-	-	-	(2,210)
Balance at September 30, 2019	385,868	185,293	355,987	348,648	1,275,796
Accumulated depreciation					
Balance at December 31, 2017	42,802	11,845	74,875	9,220	138,742
Depreciation	62,116	17,740	86,368	37,460	203,684
Disposals	-	-	(61,547)	(10,474)	(72,021)
Balance at December 31, 2018	104,918	29,585	99,696	36,206	270,405
Depreciation	60,561	19,885	51,151	69,478	201,075
Disposals	(902)	-	-	-	(902)
Balance at September 30, 2019	164,577	49,470	150,847	105,684	470,578
Net book value as at:					
December 31, 2018	\$ 65,084	\$ 152,294	\$ 252,941	\$ 246,769	\$ 717,088
September 30, 2019	\$ 221,291	\$ 135,823	\$ 205,140	\$ 242,964	\$ 805,218

In February 2019, the Company reclassified \$135,000 out of prepaid assets into property and equipment.

7. Intangible assets

	Computer software	Trademarks	Total intangible assets
Cost			
Balance at December 31, 2017	\$ 5,143	\$ 16,236	\$ 21,379
Additions	-	-	-
Balance at December 31, 2018	5,143	16,236	21,379
Additions	501,487	-	501,487
Balance at September 30, 2019	506,630	16,236	522,866
Accumulated amortization			
Balance at December 31, 2017	4,143	2,095	6,238
Amortization	1,000	1,083	2,083
Balance at December 31, 2018	5,143	3,178	8,321
Amortization	-	810	810
Balance at September 30, 2019	5,143	3,988	9,131
Net book value as at:			
December 31, 2018	\$ -	\$ 13,058	\$ 13,058
September 30, 2019	\$ 501,487	\$ 12,248	\$ 513,735

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8. Leases

As discussed in Note 3, the Company adopted ASC 842 with an initial application date of January 1, 2019. The Company is party to two lease agreements under which it rents office and laboratory space. The rent for both of these leases was prepaid upon inception and therefore at adoption the Company reclassified its prepaid lease balances of \$1,613,038 to a right-of-use asset.

The Company amortizes the asset on a straight-line basis and records the expense in the consolidated statement of operations and comprehensive loss. During the three and nine months ended September 30, 2019, the Company recognized \$127,345 and \$382,035 (2018 – nil) in amortization expense in the consolidated statements of operations and comprehensive loss.

9. Loan arrangements

On October 17, 2017, the Company entered into a loan arrangement with a shareholder of the Company, pursuant to which such shareholder has agreed to provide a loan facility to the Company, whereby the Company may borrow up to \$5,000,000, with the proceeds to be used for working capital and general corporate purposes. The term of the loan facility is five (5) years, with principal and interest payments being due only at the time of maturity. Under the loan agreement, the Company may borrow in one or more advances, provided however that a minimum amount of \$250,000 must be borrowed at any one time and not more than two advances may occur per month. Interest shall accrue at a rate of fourteen percent (14%) per annum, payable upon maturity. As of September 30, 2019, no amounts have been borrowed.

10. Preferred stock

The Company is authorized to issue up to 20 shares of our Series 1 Preferred Shares, all without par value, and each having a stated value of \$1,000,000. The Series 1 Preferred Shares do not have voting rights except to the extent required by applicable law and are not convertible into the Company's common shares. Holders of the Series 1 Preferred Shares will not be entitled to dividends but, in lieu thereof, will receive Net Sales Payments ("Net Sales Payments" is defined as annual payments equal to 9 percent of sales) until such time as the holders have received total Net Sales Payments equal to 9 times the aggregate stated value of the outstanding Series 1 Preferred Shares. The Company will have the right to redeem the outstanding Series 1 Preferred Shares at any time at a redemption price equal to 9 times the aggregate stated value of the Series 1 Preferred Shares outstanding less the aggregate amount of the Net Sales Payments paid (the "Redemption Amount").

Upon any dissolution, liquidation or winding up, whether voluntary or involuntary, holders of Series 1 Preferred Shares will be entitled to a liquidation preference equal to the stated value of the Series 1 Preferred Shares less the Net Sales Payments paid on the Series 1 Preferred Shares.

In the event of a fundamental transaction (defined to include an amalgamation, merger or other business combination transaction involving our company in which our shareholders do not have the right to cast more than 50% of the votes that may be cast for the election of directors, or a sale, lease or other disposition of the properties and/or assets of our company as an entirety or substantially as an entirety to a third party), the holders of the Series 1 Preferred Shares will be entitled to receive consideration for their Series 1 Preferred Shares equal to a multiple of the stated value of the Series 1 Preferred Shares ranging from 5.0 to 9.0 depending on the timing of the fundamental transaction, subject to a cap equal to the redemption amount. The Company has assessed the likelihood of any Net Sales Payments to the Series 1 Preferred shareholders to be remote.

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10. Preferred stock (continued)

Issued and outstanding preferred stock:

	Number of preferred stock	Preferred stock amount
Balance at December 31, 2018	-	\$ -
Stock issued from financing (i)	12	11,961,397
Balance at September 30, 2019	12	\$ 11,961,397

- (i) On May 9, 2019, the Company entered into subscription agreements to sell \$12,000,000 of its Series 1 Preferred Shares to an accredited investor in a private placement at a purchase price of \$1,000,000 per Series 1 Preferred Share; \$5,000,000 of the purchase price was paid on May 9, 2019 and the remaining \$7,000,000 was paid on June 7, 2019. The Company recorded \$1,414 and \$38,603 of share issuance costs as an offset to preferred stock in the three and nine months ended September 30, 2019

11. Common stock

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

Issued and outstanding common stock:

	Number of common stock	Common stock amount
Balance at December 31, 2017	90,225,869	\$ 18,244,659
Stock issuance for services	641,717	1,238,513
Stock issuance for financing, net of costs	1,861,627	3,966,362
Stock issuance due to exercise of options	1,866,996	1,923,922
Balance at September 30, 2018	94,596,209	\$ 25,373,456
Balance at December 31, 2018	97,598,898	\$ 30,410,648
Stock issuance for services (i and ii)	707,236	792,104
Stock issuance from financing (iii and iv)	9,337,529	6,690,922
Stock issuance due to exercise of options	394,735	754,148
Balance at September 30, 2019	108,038,398	\$ 38,647,822

- (i) On January 14, 2019, the Company settled \$75,000 of amounts due to a vendor by issuing 49,342 common shares valued at \$55,263 at the date of issuance. The Company recorded a \$19,737 gain on the settlement of liabilities during the three months ended March 31, 2019;
- (ii) On January 14, 2019, the Company issued 657,894 common shares in satisfaction of \$1,000,000 of all remaining milestones under a License and Supply Agreement with a third party. The Company recognized \$736,841 as research and development expense, based on the value of the common stock on the date of issuance;
- (iii) On January 14, 2019, the Company completed a non-brokered private placement, and issued 2,815,789 common shares. Gross proceeds of \$4,280,000 were received prior to December 31, 2018. The Company recorded \$465 of share issuance costs as an offset to common stock;
- (iv) On March 28, 2019, the Company completed an underwritten public offering of its common stock pursuant to which the Company sold an aggregate 6,521,740 common shares for gross proceeds of \$3,000,000. The Company recorded nil and \$588,613 of share issuance costs as an offset to common stock in the three and nine months ended September 30, 2019.

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12. Stock-based compensation

During the three months ended September 30, 2019, nil options were exercised. During the three months ended September 30, 2018, 85,000 options were exercised. During the nine months ended September 30, 2019, 394,735 options were exercised. During the nine months ended September 30, 2018, 1,866,996 options were exercised. During the three months ended September 30, 2019, the Company issued 1,500,000 stock options. During the nine months ended September 30, 2019, the Company issued 7,495,000 stock options, each option entitling the holder to purchase one common share of the Company. During the three and nine months ended September 30, 2018, the Company issued nil options.

The continuity of stock options are as follows:

	Number of options	Weighted avg exercise price (US\$(i))
Balance at December 31, 2018	422,004	\$1.95
Stock options granted January 10, 2019	5,995,000	1.52
Stock options expired February 24, 2019	(35,000)	1.12
Stock options exercised March 8, 2019	(164,473)	1.52
Stock options exercised March 15, 2019	(164,473)	1.52
Stock options exercised March 29, 2019	(65,789)	1.52
Stock options expired May 23, 2019	(10,000)	1.52
Stock options expired June 16, 2019	(40,000)	1.52
Stock options cancelled August 13, 2019	(5,000)	1.52
Stock options expired August 14, 2019	(392,004)	2.07
Stock options granted August 19, 2019	500,000	0.26
Stock options granted August 19, 2019	100,000	0.35
Stock options granted August 19, 2019	100,000	0.45
Stock options granted August 19, 2019	100,000	0.55
Stock options granted August 19, 2019	100,000	0.65
Stock options granted August 19, 2019	100,000	0.75
Stock options granted September 16, 2019	500,000	0.43
Balance at September 30, 2019	7,040,265	\$1.28

(i) As of the year ended December 31, 2018, the weighted average exercised price in CDN\$ was \$2.65.

As at September 30, 2019, details of the issued and outstanding stock options were as follows:

Grant date	Exercise price (USD\$)	Number of options	Number of vested options	Weighted Avg Remaining Life (years)
January 10, 2019	\$ 1.52	5,540,265	5,540,265	1.28
August 19, 2019	0.26	500,000	500,000	1.88
August 19, 2019	0.35	100,000	100,000	1.88
August 19, 2019	0.45	100,000	100,000	1.88
August 19, 2019	0.55	100,000	100,000	1.88
August 19, 2019	0.65	100,000	100,000	1.88
August 19, 2019	0.75	100,000	100,000	1.88
September 16, 2019	0.43	500,000	500,000	1.96
Balance at September 30, 2019		7,040,265	7,040,265	

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12. Stock-based compensation (continued)

The fair value of options granted during the three and nine months ended September 30, 2019 was estimated using the Black-Scholes option pricing model to determine the fair value of options granted using the following assumptions:

	January 10, 2019	August 19, 2019	September 16, 2019
Volatility	68%	87%	89%
Risk-free interest rate	2.56%	1.48%	1.74%
Expected life	2 years	2 years	2 years
Dividend yield	0	0	0
Common share price	\$1.23	\$0.26	\$0.42
Strike price	\$1.52	\$ 0.26 - \$ 0.75	\$0.43
Forfeiture rate	nil	nil	nil

The Company recorded \$197,988 of stock-based compensation for the three months ended September 30, 2019 (three months ended September 30, 2018 – nil). The Company recorded \$2,539,092 of stock-based compensation for the nine months ended September 30, 2019 (nine months ended September 30, 2018 - \$7,288). The Company recorded nil in cash receipts due to the exercise of options during the three months ended September 30, 2019. The Company recorded the cash receipt of \$600,000 and reclassified \$154,148 of stock-based compensation to common stock due to the exercise of options during the nine months ended September 30, 2019. The Company recorded the cash receipt of \$98,716 and reclassified \$34,608 of stock-based compensation to common stock due to the exercise of options during the three months ended September 30, 2018. The Company recorded the cash receipt of \$1,537,024 and reclassified \$386,898 of stock-based compensation to common stock due to the exercise of options during the nine months ended September 30, 2018.

The Company has estimated its stock option forfeitures to be nil for the three and nine months ended September 30, 2019 (three and nine months ended September 2018 - nil).

13. Commitments and contingencies

On October 1, 2018, the Company entered into a one-year rental agreement. On September 1, 2019, the Company elected to renew this rental agreement for an additional one-year period, as well as enter into an additional one-year rental agreement. The Company elected not to account for these leases in accordance with ASC 842 as they are for a one-year term. Total future annual lease payments for the premises are as follows:

2019	\$12,480
2020	33,280
<u>Total</u>	<u>\$45,760</u>

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13. Commitments and contingencies (continued)

On November 26, 2018, the Company entered into a Development and Supply Agreement and as part of this agreement, the Company has contingent future outflows as follows:

- 1st payment: At the later of the achievement of a future milestone event or September 12, 2019, can decide to receive payment as follows:
 - \$3,000,000 in cash or
 - \$1,500,000 in cash and \$1.95 million in equity
- 2nd payment: At the later of the achievement of a future milestone or February 19, 2020 - \$2,000,000 in cash.

As at September 30, 2019, neither of the future development milestones related to the above agreement have been met.

On May 10, 2018, the Company entered into a Development, Commercialization and Exclusive Distribution Agreement. As part of the agreement, the Company is required to make the following future milestone payments:

- 1st payment: \$3,500,000 in cash payment upon the achievement of future development milestones
- 2nd payment: \$3,500,000 in equity based on the number of the Company's common stock determined by dividing the amount due by the volume-weighted average price of the Company's common stock on the NYSE American exchange over the 10 trading days prior to the achievement of the milestone event.

As at September 30, 2019, neither of the future development milestones related to the above agreement have been met.

From time to time, the Company may be exposed to claims and legal actions in the normal course of business. As at September 30, 2019, and continuing as at November 12, 2019, the Company is not aware of any pending or threatened material litigation claims against the Company, other than as described below.

On November 1, 2019, Heska Corporation ("Heska") filed a complaint for damages and injunctive relief (the "Complaint") in the United States District Court for the Middle District of North Carolina, Case 1:19-cv-01108-LCB-JLW, against Qorvo US, Inc. ("Qorvo US"), Qorvo Biotechnologies, LLC ("Qorvo Biotech" and, together with Qorvo US, "Qorvo") and the Company (collectively with Qorvo, the "Defendants"). The Complaint alleges, among other things, that the Defendants improperly obtained Heska's trade secrets and confidential information and/or conspired to use improper means to misappropriate Heska's trade secrets related to an instrument and related consumable products for performing immunoassay analysis of biomarkers and other substances. The Complaint seeks compensatory and exemplary damages, as well as preliminary and permanent injunctive relief to prevent the Defendants from commercializing the Company's TRUFORMA™ diagnostic instrument.

Under the terms of the Development and Supply Agreement, dated November 26, 2018, by and between Qorvo Biotech and the Company (the "Qorvo Agreement"), Qorvo Biotech agreed to indemnify the Company and certain related parties against claims alleging infringement or misappropriation of third-party intellectual property rights, subject to certain limitations and exceptions. Qorvo Biotech has notified the Company that Qorvo Biotech has assumed the defense of the Complaint and will indemnify the Company for losses arising from the Complaint in accordance with the terms of the Qorvo Agreement. Qorvo Biotech has further advised the Company that it intends to mount a vigorous defense to the claims in the Complaint, and that it believes the allegations contained in the Complaint are without merit.

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14. Financial instruments

(a) Fair values

The Company follows ASC topic 820, "Fair Value Measurements" which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of ASC topic 820 apply to other accounting pronouncements that require or permit fair value measurements. ASC topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date; and establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Inputs refers broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The three levels of the hierarchy are defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly for substantially the full term of the financial instrument.

Level 3 inputs are unobservable inputs for asset or liabilities.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

- (i) The Company calculates expected volatility based on historical volatility of the Company's peer group that is publicly traded for options.

An increase/decrease in the volatility would have resulted in an increase/decrease in the fair value of the options.

The carrying values of cash, trade and other receivable, accounts payable and accrued liabilities and shareholder loans payable approximates their fair values because of the short-term nature of these instruments.

(b) Interest rate and credit risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates, relative to interest rates on cash and cash equivalents, due to related parties due to the short-term nature of these balances.

The Company is also exposed to credit risk at period end from the carrying value of its cash. The Company manages this risk by maintaining bank accounts with a Canadian Chartered Bank and a U.S. Bank. The Company's cash is not subject to any external restrictions.

(c) Foreign exchange risk

The Company has balances in Canadian dollars that give rise to exposure to foreign exchange ("FX") risk relating to the impact of translating certain non-U.S. dollar balance sheet accounts as these statements are presented in U.S. dollars. A strengthening U.S. dollar will lead to a FX loss while a weakening U.S. dollar will lead to a FX gain. For each Canadian dollar balance of \$1.0 million, a +/- 10% movement in the Canadian currency held by the Company versus the U.S. dollar would affect the Company's loss and other comprehensive loss by \$0.1 million.

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14. Financial instruments (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty raising liquid funds to meet commitments as they fall due. In meeting its liquidity requirements, the Company closely monitors its forecasted cash requirements with expected cash drawdown.

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at June 30, 2019 and December 31, 2018:

	September 30, 2019					Total
	Less than 3 months	3 to 6 months	6 to 9 months	9 months 1 year	Greater than 1 year	
Third parties	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,577,525	-	-	-	-	1,577,525
	1,577,525	-	-	-	-	1,577,525

	December 31, 2018					Total
	Less than 3 months	3 to 6 months	6 to 9 months	9 months 1 year	Greater than 1 year	
Third parties	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,376,519	-	-	-	-	2,376,519
	2,376,519	-	-	-	-	2,376,519

15. Segmented information

The Company's operations comprise a single reportable segment engaged in the research, development targeting health and wellness solutions for the companion animal. As the operations comprise a single reportable segment, amounts disclosed in the financial statements for loss for the period, depreciation and total assets also represent segmented amounts. In addition, all of the Company's long-lived assets are in the United States of America ("US").

		September 30, 2019	December 31, 2018
Total assets		\$	\$
	Canada	431,063	383,567
	US	6,179,961	5,649,952
Total US property and equipment		805,218	717,088
Total US right-of-use asset		1,231,003	-
		2,036,221	717,088

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16. Schedule of expenses

	For the three months ended September 30, 2019			For the three months ended September 30, 2018		
	Research and Development	Professional Fees	General and Administrative	Research and Development	Professional Fees	General and Administrative
Salaries, bonus and benefits	\$ 129,319	\$ -	\$ 849,458	\$ 164,267	\$ -	\$ 454,786
Contracted expenditures	661,917	-	-	259,947	-	-
Marketing and investor relations	-	-	165,837	-	-	53,996
Travel and accommodation	8,327	-	198,993	8,023	-	36,491
Insurance	19,497	-	66,029	20,855	-	76,903
License fees	-	-	-	-	-	-
Office	11,565	-	80,032	6,665	-	82,416
Consultants	29,343	279,237	-	80,425	293,484	-
Regulatory	31,773	-	26,163	19,247	-	32,904
Rent	-	-	7,603	15,396	-	90,463
Supplies	70,722	-	10,837	55,546	-	6,611
Total	\$ 962,463	\$ 279,237	\$ 1,404,952	\$ 630,371	\$ 293,484	\$ 834,570

	For the nine months ended September 30, 2019			For the nine months ended September 30, 2018		
	Research and Development	Professional Fees	General and Administrative	Research and Development	Professional Fees	General and Administrative
Salaries, bonus and benefits	\$ 579,110	\$ -	\$ 4,422,480	\$ 490,706	\$ -	\$ 1,957,341
Contracted expenditures	2,474,483	-	-	968,159	-	-
Marketing and investor relations	-	-	297,252	-	-	177,151
Travel and accommodation	21,103	-	318,730	13,360	-	228,359
Insurance	76,402	-	179,367	65,099	-	234,646
License fees	5,936,841	-	-	1,738,513	-	-
Office	31,162	-	216,521	41,312	-	220,823
Consultants	178,223	1,230,151	-	169,613	1,001,886	-
Regulatory	95,418	-	76,333	57,422	-	226,604
Rent	-	-	19,483	31,047	-	176,501
Supplies	162,603	-	27,495	190,101	-	21,807
Total	\$ 9,555,345	\$ 1,230,151	\$ 5,557,661	\$ 3,765,332	\$ 1,001,886	\$ 3,243,232

17. Capital risk management

The capital of the Company includes equity, which is comprised of issued common capital stock, additional paid-in capital, and accumulated deficit. The Company's objective when managing its capital is to safeguard the ability to continue as a going concern in order to provide returns for its shareholders, and other stakeholders and to maintain a strong capital base to support the Company's core activities.

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18. Loss per share

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Numerator				
Net loss for the period	\$ 2,845,679	\$ 1,910,278	\$ 16,927,016	\$ 8,226,005
Denominator				
Weighted average shares - basic	108,038,398	94,514,905	105,711,459	92,534,667
Stock options	-	-	-	-
Denominator for diluted loss per share	108,038,398	94,514,905	105,711,459	92,534,667
Loss per share - basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.16)	\$ (0.09)

For the above-mentioned periods, the Company had securities outstanding which could potentially dilute basic earnings per share in the future but were excluded from the computation of diluted loss per share in the periods presented, as their effect would have been anti-dilutive.

19. Related party transactions and key management compensation

Key management personnel are comprised of the Company's directors and executive officers. In addition to their salaries, key management personnel also receive share-based compensation. Key management personnel compensation is as follows:

	For the three months ended		For the nine months ended	
	September 30, 2019	2018	September 30, 2019	2018
Salaries and benefits, including bonuses	\$ 251,737	\$ 324,784	\$ 887,635	\$ 1,046,449
Stock-based compensation	100,002	-	1,744,327	-
Total	\$ 351,739	\$ 324,784	\$ 2,631,962	\$ 1,046,449