# Medexus Pharmaceuticals Inc.
(formerly Pediapharm Inc.)

Consolidated Financial Statements
**March 31, 2019 and 2018**
(expressed in Canadian dollars)

# *Independent auditor's report*

To the Shareholders of Medexus Pharmaceuticals Inc. (formerly Pediapharm Inc.)

## *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Medexus Pharmaceuticals Inc. (formerly Pediapharm Inc.) and its subsidiaries (together, the Company) as at March 31, 2019 and 2018 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

**What we have audited**
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at March 31, 2019 and 2018;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to consolidated financial statements, which include a summary of significant accounting policies.

## *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

**Independence**
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

## *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of management and those charged with governance for the consolidated financial statements*

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Andrew Popliger.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
July 8, 2019

[1] CPA auditor, CA, public accountancy permit No. A125677

# Medexus Pharmaceuticals Inc.

(formerly Pediapharm Inc.)

Consolidated Statements of Financial Position

**As at March 31, 2019 and 2018**

(expressed in Canadian dollars)

| | Note | 2019 $ | 2018 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 29,205,486 | 3,608,506 |
| Accounts receivable | 5 | 9,936,715 | 738,454 |
| Prepaid expenses and deferred costs | | 2,010,331 | 98,795 |
| Inventories | 6 | 5,658,297 | 2,189,278 |
| | | 46,810,829 | 6,635,033 |
| **Security deposits** | | 694,876 | - |
| **Property and equipment** | 7 | 867,112 | 20,099 |
| **Intangible assets** | 8 | 55,795,579 | 2,602,330 |
| **Goodwill** | 4 | 9,336,159 | - |
| | | 113,504,555 | 9,257,462 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 9 | 13,511,802 | 1,688,454 |
| Interest payable | | - | 165,613 |
| Income tax payable | 22 | 631,705 | - |
| Convertible debentures | | - | 20,000 |
| | | 14,143,507 | 1,874,067 |
| **Convertible debentures – Host** | 3, 10 | 22,525,501 | 4,345,627 |
| **Convertible debentures – Derivative** | 3, 10 | 15,120,000 | - |
| **Deferred tax liabilities** | 22 | 7,478,360 | - |
| **Balance of payable for business combination** | 4 | 17,021,124 | - |
| | | 76,288,492 | 6,219,694 |
| **Shareholders' Equity** | | | |
| **Share capital** | 11 | 61,944,145 | 25,347,384 |
| **Contributed surplus** | | 7,598,306 | 4,902,565 |
| **Cumulative translation adjustment** | | 1,408,032 | - |
| **Deficit** | | (33,734,420) | (27,212,181) |
| | | 37,216,063 | 3,037,768 |
| | | 113,504,555 | 9,257,462 |

**Approved by the Board of Directors**

________________________ Director ________________________ Director

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

# Medexus Pharmaceuticals Inc.

(formerly Pediapharm Inc.)

Consolidated Statements of Loss and Comprehensive Loss

**For the years ended March 31, 2019 and 2018**

(expressed in Canadian dollars)

| | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Revenue** | | | |
| Products | | 33,864,028 | 10,009,167 |
| **Cost of sales** | 6 | 13,858,714 | 4,967,541 |
| **Gross profit** | | 20,005,314 | 5,041,626 |
| Selling and administrative expenses | 14 | 20,849,751 | 7,862,437 |
| Transaction-related fees and expenses | 3 | 4,831,093 | - |
| Depreciation and amortization | 7, 8 | 64,426 | 14,294 |
| Impairment of intangible asset | 8 | 124,746 | - |
| **Operating loss** | | (5,864,702) | (2,835,645) |
| Financing costs | 15 | 141,071 | 710,973 |
| Interest income | | (215,930) | (39,800) |
| Foreign exchange loss (gain) | | 510,370 | (23,633) |
| **Loss before income taxes** | | (6,300,213) | (3,482,645) |
| **Income tax expense (recovery)** | | | |
| Current | 22 | 632,367 | - |
| Deferred | 22 | (410,341) | - |
| | | 222,026 | - |
| **Net loss** | | (6,522,239) | (3,482,645) |
| **Other comprehensive income** | | | |
| Foreign currency gain on translation of foreign operations | | 1,408,032 | - |
| **Comprehensive loss** | | (5,114,207) | (3,482,645) |
| **Net loss per share attributable to shareholders of the Company** | | | |
| Basic and diluted | | (0.66) | (0.62) |
| **Weighted average number of common shares outstanding** | | 9,909,410 | 5,682,621 |

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

# Medexus Pharmaceuticals Inc.

(formerly Pediapharm Inc.)

Consolidated Statements of Changes in Shareholders' Equity

**For the years ended March 31, 2019 and 2018**

(expressed in Canadian dollars)

| | | Share capital | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Common shares | Amount $ | Contributed surplus $ | Cumulative translation adjustment $ | Deficit $ | Total shareholders' equity $ |
| **Balance – March 31, 2017** | | 4,847,274 | 21,025,018 | 3,862,379 | - | (23,591,761) | 1,295,636 |
| Net loss and comprehensive loss | | - | - | - | - | (3,482,645) | (3,482,645) |
| Share-based compensation – Stock option plan | | - | - | 267,812 | - | - | 267,812 |
| Issuance of units for private placement | | 980,392 | 4,359,892 | 640,108 | - | - | 5,000,000 |
| Issuance costs | | - | (37,526) | (5,509) | - | - | (43,035) |
| Extension of warrants | | - | - | 137,775 | - | (137,775) | - |
| **Balance – March 31, 2018** | | 5,827,666 | 25,347,384 | 4,902,565 | - | (27,212,181) | 3,037,768 |
| Net loss | | - | - | - | - | (6,522,239) | (6,522,239) |
| Other comprehensive income | | - | - | - | 1,408,032 | - | 1,408,032 |
| Issuance of units for private placement | 3 | 3,911,760 | 17,316,306 | 2,633,673 | - | - | 19,949,979 |
| Issuance of units for business combinations | 4 | 4,993,748 | 21,008,944 | 265,127 | - | - | 21,274,071 |
| Issuance of brokers warrants | 3 | - | - | 205,145 | - | - | 205,145 |
| Transaction fees | 3, 4 | - | (1,825,333) | (266,386) | - | - | (2,091,719) |
| Equity component of convertible debentures | 3 | - | - | (838,229) | - | - | (838,229) |
| Share-based compensation – Stock option plan | 12 | - | - | 139,137 | - | - | 139,137 |
| Share-based compensation – RSU plan | 12 | - | - | 594,790 | - | - | 594,790 |
| Issuance of shares for exercise of stock options | | 13,086 | 96,844 | (37,516) | - | - | 59,328 |
| **Balance – March 31, 2019** | | 14,746,260 | 61,944,145 | 7,598,306 | 1,408,032 | (33,734,420) | 37,216,063 |

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

# Medexus Pharmaceuticals Inc.

(formerly Pediapharm Inc.)

Consolidated Statements of Cash Flows

**For the years ended March 31, 2019 and 2018**

(expressed in Canadian dollars)

| | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Cash flows from** | | | |
| **Operating activities** | | | |
| Net loss | | (6,522,239) | (3,482,645) |
| Adjustments for | | | |
| Depreciation of property and equipment | | 62,708 | 11,137 |
| Amortization of intangible assets | 8 | 2,518,845 | 220,025 |
| Impairment of intangible asset | | 124,746 | - |
| Share-based compensation expense | 14 | 733,927 | 267,812 |
| Deferred income tax | | (410,341) | - |
| Interest on convertible debentures and other loans | 15 | 1,699,516 | 669,167 |
| Gain on extension of convertible debentures maturity date | | - | (475,702) |
| Interest accretion on convertible debentures, net of amortization of deferred financing costs | 15 | 1,675,359 | 517,508 |
| Interest accretion on payable for business combination | 15 | 503,120 | - |
| Convertible debentures – Unrealized gain on fair value of derivative | 15 | (3,736,924) | - |
| Unrealized foreign exchange loss | | 533,032 | - |
| Interest income | | (215,930) | (39,800) |
| | | (3,034,181) | (2,312,498) |
| Changes in non-cash operating working capital items | 19 | 2,093,530 | (920,595) |
| Interest paid | | (1,865,129) | (668,554) |
| Interest received | | 215,930 | 39,800 |
| | | (2,589,850) | (3,861,847) |
| **Investing activities** | | | |
| Purchases of property and equipment | | (43,564) | (8,431) |
| Purchases of intangible assets | | (529,570) | (719,278) |
| Net cash paid for purchase of business combinations | 4 | (22,546,056) | - |
| | | (23,119,190) | (727,709) |
| **Financing activities** | | | |
| Proceeds from issuance of shares | 3 | 20,009,304 | 4,956,965 |
| Proceeds from convertible debentures | 3 | 42,000,000 | - |
| Financing fees | | (3,840,597) | - |
| Repayment of long-term debt | 10 | (6,929,523) | - |
| | | 51,239,184 | 4,956,965 |
| **Net change in cash and cash equivalents during the year** | | 25,530,144 | 367,409 |
| **Impact of foreign exchange on cash and cash equivalents** | | 66,836 | - |
| **Cash and cash equivalents – Beginning of year** | | 3,608,506 | 3,241,097 |
| **Cash and cash equivalents – End of year** | | 29,205,486 | 3,608,506 |

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

(expressed in Canadian dollars)

## 1 Incorporation and nature of activities

Medexus Pharmaceuticals Inc. (the “Company”) was incorporated under the Canada Business Corporations Act and sells products and offers marketing services, to the pharmaceutical industry. The Company is domiciled in Canada, and its registered office is located at 1 Place du Commerce, Suite 225, Verdun, Quebec H3E 1A2. The Company’s shares are traded on the TSX Venture Exchange (TSXV).

The consolidated financial statements were authorized for publication by the Board of Directors on July 8, 2019.

### Share consolidation

On December 12, 2018, the Company completed the consolidation of its common shares on the basis of 15 pre-consolidation common shares for one post-consolidation common share (the Share Consolidation). Under the Share Consolidation, fractional interests were rounded up to the nearest whole number of common shares if one half or greater, and rounded down to the nearest whole number of common shares if less than one half. The exercise price and number of common shares issuable upon the exercise of outstanding options, warrants, convertible debentures and other convertible securities of the Company were proportionately adjusted as a result of the Share Consolidation. All references to the number of common shares herein have been revised to reflect the Share Consolidation.

Also on December 12, 2018, the Company changed its name from Pediapharm Inc. to Medexus Pharmaceuticals Inc.

At the opening of trading on December 19, 2018, the Company’s common shares began trading on the TSXV under the name Medexus Pharmaceuticals Inc., on a post-consolidated basis, and under the new stock symbol “MDP”.

## 2 Basis of presentation and summary of significant accounting policies

### Basis of presentation

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) as set out in Part I of the CPA Canada Handbook – Accounting. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Company has consistently applied the same accounting policies throughout all periods presented in these consolidated financial statements except for the newly adopted standards.

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair value.

(expressed in Canadian dollars)

**Basis of consolidation**

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies to obtain benefits from its activities. Subsidiaries are fully consolidated from the date control is obtained, and they are deconsolidated on the date control ceases. The principal subsidiaries included in these consolidated financial statements are: Medac Pharma Inc. and Medexus Inc.

**Accounting standards and interpretations issued and effects**

IFRS 9, Financial Instruments

IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. IFRS 9 includes revised guidance on the classification and measurement of financial instruments and new guidance for measuring impairment on financial assets. Effective April 1, 2018, the Company adopted IFRS 9 using the modified retrospective approach. The adoption of IFRS 9 had no impact on the Company’s financial assets and financial liabilities, except disclosures.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 supersedes previous accounting standards for revenue, including IAS 11, Construction Contracts, and IAS 18, Revenue, and all existing IFRS revenue interpretations. IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers (with limited exceptions), regardless of the type of revenue transaction or the industry. Effective April 1, 2018, the Company adopted IFRS 15 using the modified retrospective method. Upon adoption of this standard, the Company did not have a cumulative adjustment, with the previous revenue recognition policy being applied consistently under the new standard. The Company’s revenue recognition policy under IFRS 15 is described subsequently in this note.

**New standards not yet adopted by the Company**

IFRS 16, Leases

In January 2016, the IASB released IFRS 16. The new standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model for the lessee under which a lease liability and a right-of-use asset is recognized for all leases with a term of more than 12 months. IFRS 16 also substantially carries forward the lessor accounting requirements; accordingly, a lessor continues to classify its leases as operating leases or finance leases. IFRS 16 supersedes IAS 17, Leases, and related interpretations. IFRS 16 is effective for annual periods beginning on January 1, 2019 for the Company, with earlier application permitted for companies that also apply IFRS 15.

(expressed in Canadian dollars)

The Company will adopt IFRS 16 on a modified retrospective basis whereby the adjustments will be recorded on April 1, 2019 without adjustments to prior periods. The Company has assessed the impact of this standard on its consolidated financial statements, the results of which as of April 1, 2019 will create a right-of-use asset and a lease liability for approximately $1 million, to be presented on the consolidated statement of financial position. Starting from that date, rent expense will be substituted by depreciation of the right-of-use asset and interest expense on the lease liability, and principal payments on the lease liability will be presented as financing cash outflows.

There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

**Use of judgments, estimates and assumptions**

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make estimates and judgments that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Management bases its estimates and judgments on historical experience and on various other assumptions that it considers reasonable. The areas involving a high degree of judgment or complexity, or other areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below. Actual results could differ from those estimates. Changes will be reported in the period in which they are identified.

a) Fair value of stock options and warrants

When the Company issues stock options and warrants, an estimate of fair value is derived for the instruments using the Black-Scholes option pricing model. The application of this model requires management to make assumptions regarding several variables, including the period for which the instrument will be outstanding, the price volatility of the Company's shares over a relevant time frame, the determination of a relevant risk-free interest rate and an assumption regarding the Company's dividend policy in the future. If different assumptions are used, the value derived for the instruments could be significantly impacted. See notes 12 and 13 for assumptions used to value these instruments.

b) Impairment of intangible assets

Licences are recognized as intangible assets and are amortized over their useful lives when they meet the criteria for capitalization. Forecasted revenue and profitability for the relevant products are used to assess compliance with the capitalization criteria and to assess the recoverable amount of the assets. The useful life is determined by identifying the period in which substantially all of the cash flows are expected to be generated, and generally amortization starts either from the date of the distribution approval granted by Health Canada or from the date of the licence contract signature, depending on the contract terms. Whenever licences are tested for impairment, the determination of the assets' recoverable amount involves the use of estimates by management and can have a material impact on the respective values and ultimately the amount of any impairment.

(expressed in Canadian dollars)

c) Fair value of convertible debentures

The convertible debentures are a compound financial instrument under IAS 32, Financial Instruments: Presentation, and have both a liability and an embedded derivative component. The fair value of the consideration for the compound instrument must be split into its liability and derivative components. The derivative is measured at fair value through profit or loss, and its fair value must be measured at each reporting period with subsequent changes in fair value recorded in the consolidated statement of loss. To estimate the fair value of the derivative at the inception date and again at subsequent reporting dates, a derivative valuation model was used. The most significant assumption used is the discount rate to fair value for the liability component. If other assumptions are used, the values derived could be significantly impacted. To estimate the fair value of the derivative, a derivative valuation model was used. Several key assumptions affect the results of this calculation, including estimated share price volatility, as discussed in note 10.

d) Returns provision

The returns provision is calculated using management's best estimate of products that will ultimately be returned by customers. The estimation of the returns provision is based on historical experience with returned products and is deducted from revenue. The estimated returns provision for the year ended March 31, 2019 was $375,813 (2018 – $108,271).

e) Business combinations

Business combinations are accounted for in accordance with the acquisition method. The consideration transferred and the acquiree's identifiable assets, liabilities and contingent liabilities are measured at their fair value. The Company develops the fair value by using appropriate valuation techniques which are generally based on a forecast of the total expected future net discounted cash flows. These evaluations are linked closely to the assumptions made by management regarding the future performance of the related assets and the discount rate. Contingent consideration is measured at fair value using a discounted cash flow model.

**Foreign currency translation**

The Company's presentation and functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Exchange gains and losses resulting from the translation of these amounts are included in the consolidated statement of loss and comprehensive loss for the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated at the exchange rate in effect at the transaction date. The Company has a foreign subsidiary that does not have the Canadian dollar as its functional currency. Foreign exchange gains and losses arising from the translation of the foreign subsidiary's accounts into Canadian dollars are reported as a component of other comprehensive income.

(expressed in Canadian dollars)

**Revenue recognition**

Sale of products

The Company sells pharmaceutical products.

On April 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers. The Company reviewed its revenue streams and major contracts with customers using the IFRS 15 five-step model. The Company recognizes revenue when (i) the contract with the customer is identified; (ii) performance obligations in the contract are identified; (iii) the transaction price is determined; (iv) the transaction price is allocated to the performance obligations; and (v) performance obligations are satisfied. Products are delivered by truck directly from the Company to customers located in Canada and the United States and are recognized as revenue when the control of the products are transferred to the customer. Revenue recognized under IFRS 15 were not different from those as they would have been under IAS 18, primarily because the timing of transfer of control of products sold to customers remained the same point in time (i.e. delivery to the customer).

Rights of return give rise to variable consideration. The variable consideration is estimated at contract inception using the expected value method as this best predicts the amount of variable consideration to which the Company is entitled. The variable consideration is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when any uncertainty is subsequently resolved. For products that are expected to be returned, a refund liability is recognized as a reduction of revenue at the time control of the products is transferred to the customers.

The Company may provide discounts and rebates to its customers, which give rise to variable consideration. The variable consideration is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when any uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. The Company applies the most likely amount method estimating discounts and rebates provided to customers using contracted rates. Consequently, revenues are recognized net of reserves for estimated sales discounts and rebates.

Previously, under IAS 18, revenue from the sale of products in the course of ordinary activities was measured at the fair value of the consideration received or receivable, net of returns. Revenues were recognized net of applicable rebates and after the following criteria had been met: (i) there was evidence of an arrangement; (ii) delivery had been made; (iii) there was no continuing management involvement with the products; (iv) the price was fixed; and (v) the recovery of the consideration was probable.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and highly liquid investments with original terms to maturity of 90 days or less at the date of purchase.

(expressed in Canadian dollars)

**Inventories**

Raw materials and finished goods are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

**Property and equipment**

Property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The Company depreciates its property and equipment as follows:

| | Method | Rate/Period |
|---|---|---|
| Computer equipment | Straight-line | 3 years |
| Office furniture and equipment | Declining balance | 20% |

**Intangible assets**

Separately acquired trademarks and licences are recorded at cost less accumulated amortization and any accumulated impairment charges. These assets have finite useful lives.

Intangible assets are amortized using the straight-line basis over their estimated lives as follows:

| | Period |
|---|---|
| Licences | Between 7 and 15 years |
| Trademarks | 15 years |
| Software | 3 years |

Amortization method and useful lives are reviewed and adjusted, if appropriate, on a prospective basis at each reporting date.

**Impairment of long-lived assets**

Property and equipment and intangible assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels at which they have separately identifiable cash flows (cash-generating units). Non-financial assets that previously had impairment are reviewed for possible reversal of the impairment at each reporting date.

(expressed in Canadian dollars)

**Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets expired or been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is extinguished, which occurs when it is either discharged, canceled or expired.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable and unconditional right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Financial assets

Financial assets and financial liabilities are recognized initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss (FVTPL) or through other comprehensive income (loss) (FVTOCI), which are measured initially at fair value.

*Impairment*

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. An external rating of investment grade is considered to indicate that a financial instrument that may be considered as having low credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Financial liabilities

Financial liabilities are initially recorded at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial instruments are measured at amortized cost using the effective interest rate method.

Classification depends on the purpose for which the financial instruments were acquired and on their characteristics. Management determines the classification of its financial instruments at their initial recognition. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

(expressed in Canadian dollars)

The Company's financial instruments are classified as follows:

| Financial instrument | Classification under IFRS 9 |
|---|---|
| *Measured at amortized cost* | |
| Cash and cash equivalents | Amortized cost |
| Accounts receivable | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Convertible debentures – Host | Amortized cost |
| Balance of payable for business combinations | Amortized cost |
| *Measured at fair value* | |
| Convertible debentures – Derivative | FVTPL |

**Goodwill**

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations. After initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the Company's cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The Company reviews the carrying value of goodwill in accordance with IAS 36, Impairment of Assets, on an annual basis on March 31 or more frequently if events or change in circumstances indicate that it is more likely than not that the fair value of the goodwill is below its carrying amount. Impairment is determined by assessing the recoverable amount of the Company's CGU. The CGU's recoverable amount is the higher of the CGU's fair value less costs of disposal and its value in use.

**Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation (a) as a result of a past event; (b) when it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) when a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is accounted for in the consolidated statement of loss and comprehensive loss, net of any reimbursement.

If the known expected settlement date exceeds 12 months from the date of recognition, provisions are discounted using a current pre-tax interest rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense. Provisions are reviewed periodically and adjusted as appropriate.

(expressed in Canadian dollars)

**Income taxes**

Current income tax expense is calculated on the basis of the applicable Canadian and US tax laws enacted or substantively enacted at the end of the reporting period. The tax expense for the fiscal year comprises current and deferred income tax. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred income tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects either accounting or taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**Share-based compensation**

The Company has outstanding common stock options which are considered equity awards. Accordingly, the Company recognizes a share-based compensation expense based on the fair value of the options at the grant date with a corresponding credit to contributed surplus. The options vest in tranches (graded vesting); accordingly, the expense is recognized using the accelerated expense attribution method over the vesting period. The vesting of an award is not contingent on the attainment of performance conditions. When the stock options are exercised, the Company issues new shares and the proceeds net of any directly attributable transaction costs are credited to share capital.

**Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in shareholders’ equity as a deduction, net of tax, from the proceeds.

(expressed in Canadian dollars)

**Loss per share**

Loss per share is calculated by dividing the net loss for the year attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the year. The diluted weighted average number of common shares outstanding is calculated by taking into account the dilution that would occur if the securities or other agreements for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the year or the issuance date, unless it is anti-dilutive. The treasury stock method is used to determine the dilutive effect of the stock options. The treasury stock method is a method of recognizing the use of proceeds that could be obtained upon the exercise of options in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the year. The Company has two categories of dilutive potential common shares: share-based compensation options and warrants. For the year ended March 31, 2019, share-based compensation options and warrants to acquire 5,443,870 common shares (2018 – 1,241,742) have been excluded from the diluted earnings per share calculation, since their inclusion would have had an anti-dilutive effect.

**Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company has one reportable operating segment: the products sold and the marketing services offered to the pharmaceutical industry. The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. All of the Company's assets are located in Canada and the United States.

**Business combinations**

The Company follows the acquisition method to account for business combinations in accordance with IFRS 3, Business Combinations. The acquisition method of accounting requires that assets acquired and liabilities assumed be recorded at their estimated fair values on the date of a business acquisition. The amounts included in the consolidated statement of loss and comprehensive loss under transaction-related fees and expenses arise from business combinations made by the Company. Acquisition costs that are tied to continuing employment of pre-existing shareholders are required to be recognized as acquisition-related compensation and amortized in accordance with the vesting terms in the acquisition agreement. Consequently, those costs are not included in the total purchase consideration of the business combination. No further cash obligation or dilution of equity will arise linked to the acquisition-related compensation. All other costs related to the acquisition are expensed as incurred.

New information obtained during the measurement period, up to 12 months following the acquisition date, about facts and circumstances existing at the acquisition date affect the acquisition accounting.

(expressed in Canadian dollars)

## 3 Convertible debentures by non-brokered private placement

On October 11, 2018, the Company completed a private placement offering of Subscription Receipts (as defined below) for aggregate gross proceeds of $61,949,979.40 (the Offering).

The Offering consisted of the issuance of a combination of (i) subscription receipts (Unit Subscription Receipts) convertible into units (Units), at a price of $0.42 per Unit Subscription Receipt; and (ii) subscription receipts (Debenture Subscription Receipts) (together the Subscription Receipts), convertible into debentures (Convertible Debentures) at a price of $1,000 per Debenture Subscription Receipt. Each Unit comprised one pre-consolidation common share (0.0667 post-consolidation common share) and one half of one pre-consolidation common share purchase warrant (0.0333 post-consolidation common share purchase warrant) (each whole common share purchase warrant, an Offering Warrant), with each whole pre-consolidation Offering Warrant being exercisable into one pre-consolidation common share for a period of five years at an exercise price of $0.63 per share. Following the Share Consolidation, one post-consolidation Offering Warrant entitles the holder to purchase one post-consolidation common share at an exercise price of $9.45 per share. The Convertible Debentures are convertible into units (Conversion Units) consisting of one pre-consolidation common share (0.0667 post-consolidation common share) and one half of one pre-consolidation Offering Warrant (0.0333 post-consolidation Offering Warrant) at a price of $0.42 per pre-consolidation Conversion Unit ($6.30 per post-consolidation Conversion Unit). Pursuant to the Offering, the Company issued 58,676,397 Unit Subscription Receipts for aggregate gross subscription proceeds of $19,949,979, and 42,000 Debenture Subscription Receipts for aggregate gross subscription proceeds of $42,000,000.

The Convertible Debentures will mature on October 16, 2023 and will be repaid in full by the Company with a ayment equal to 125% of such outstanding principal amount, with such repayment to be made in cash or, at the Company's option, in common shares of the Company. The Convertible Debentures bear interest at a rate of 6.0% per annum beginning October 16, 2018, payable semiannually in cash, or, at the Company's option and subject to the prior approval of the TSXV, in common shares of the Company. The aggregate gross proceeds of the Offering were placed into escrow and released to the Company upon completion of the Medac Pharma Acquisition and Medexus Acquisition (as each term is defined below), at which time the Subscription Receipts were exchanged automatically into Units and Convertible Debentures, all pursuant to the terms of a subscription receipt agreement entered into in connection with the Offering.

The Convertible Debentures are a compound financial instrument under IAS 32 and have both a liability and an embedded derivative component. The fair value of the consideration for the compound instrument must be split into its liability and derivative components. The derivative is measured at FVTPL, and its fair value must be measured at each reporting period with subsequent changes in fair value recorded in the consolidated statement of loss.

At the date of acquisition, the fair value of the liability component was determined to be $23,143,076 and the fair value of the derivative component was determined to be $18,856,924. As at March 31, 2019, the fair value of the derivative component was determined to be $15,120,000, and the unrealized gain was included in financing costs (note 15).

(expressed in Canadian dollars)

## 4 Business combinations

**Medac Pharma Inc.**

On October 16, 2018, the Company acquired by way of a stock purchase agreement dated September 6, 2018, indirectly through a United States subsidiary (MI Acquisitions, Inc.) created for the purposes of the acquisition, all the issued and outstanding shares of Medac Pharma Inc. (Medac Pharma), a privately held specialty pharmaceutical company focusing primarily in the area of rheumatology in the United States, from medac Gesellschaft für klinische Spezialpräparate m.b.H. (medac GmbH) (the Medac Pharma Acquisition). The Company acquired Medac Pharma as part of its ongoing effort to gain scale and enter a new geographic area.

The total consideration payable by the Company is up to US$50,000,000, of which a cash payment of US$17,773,014, made up of an initial payment of US$13,100,000 and working capital payment of US$4,673,014, has been paid, together with the issuance of 7,260,235 pre-consolidation units (484,016 post consolidation units) of the Company (the Consideration Units) with a value of approximately US$1,684,000 and an issue price of $0.30 per pre-consolidation Consideration Unit. Each pre consolidation Consideration Unit consisted of one pre-consolidation common share (0.0667 post consolidation common share) and one half of one pre-consolidation common share purchase warrant (each whole common share purchase warrant, a Consideration Unit Warrant), with each pre consolidation Consideration Unit Warrant being exercisable into one pre-consolidation common share for a period of five years at an exercise price of $0.63 per share. Following the Share Consolidation, one post consolidation Consideration Unit Warrant entitles the holder to purchase one post-consolidation common share at an exercise price of $9.45 per share.

A contingent cash payment of US$5,000,000 and annual payments in an amount equal to 7.5% of the aggregate consolidated EBITDA of the Company, subject to certain agreed-upon adjustments and until such time as an aggregate of US$30,000,000 in annual payments have been made, are also payable in connection with the Medac Pharma Acquisition. The Company’s preliminary fair value of these contingent payments is $16,171,206 (US$12,499,000).

Concurrent with closing of the Medac Pharma Acquisition, medac GmbH, the Company and Medac Pharma entered into a manufacturing and supply agreement (the Medac Supply Agreement) for an initial term of 12 years from the completion of the Medac Pharma Acquisition. The Medac Supply Agreement will provide for the continued supply of products by medac GmbH to the Company for sale in the United States by the Company, including a right of first refusal granted to the Company with respect to the commercialization in the United States or Canada of certain specified products of medac GmbH that medac GmbH wishes to commercialize for use in the United States or Canada during the term of the Medac Supply Agreement. In addition, an existing supply agreement between medac GmbH and Medexus Inc. (Medexus) was extended, on its existing financial terms, such that it expires 12 years from the date of the completion of the Medac Pharma Acquisition.

(expressed in Canadian dollars)

The Company has not finalized its review of the books and records of Medac Pharma, and thus the purchase price allocation is subject to change. The final determination of the fair value of identifiable assets and liabilities acquired will be completed within the prescribed period of one year following the acquisition, as per IFRS 3. The final purchase price allocation may include (a) changes in fair value of intangible assets; (b) changes in deferred tax liabilities recognized; (c) changes in fair value of the contingent consideration; and (d) the resulting changes to the amount recognized as goodwill. Such adjustments could be material.

**Medexus Inc.**

On October 16, 2018, the Company completed the acquisition of all of the issued and outstanding shares of Medexus, indirectly through a subsidiary created for the purposes of the acquisition, pursuant to the terms of an amalgamation agreement dated September 6, 2018. Medexus is a Canadian pharmaceutical company with partnerships in international markets (the Medexus Acquisition). The Company acquired Medexus as part of its ongoing effort to gain scale and enter a new therapeutic area.

The total consideration paid by the Company for the Medexus Acquisition was approximately $20,000,000, which was settled through the issuance of 67,646,009 pre-consolidation common shares (4,509,734 post-consolidation common shares) to former holders of Medexus shares, at a price of $0.30 per pre-consolidation common share ($4.50 per post-consolidation common share).

The Company has not finalized its review of the books and records of Medexus, and thus the purchase price allocation is subject to change. The final determination of the fair value of identifiable assets and liabilities acquired will be completed within the prescribed period of one year following the acquisition, as per IFRS 3. The final purchase price allocation may include (a) changes in fair value of intangible assets; (b) changes in deferred tax liabilities recognized; and (c) the resulting changes to the amount recognized as goodwill. Such adjustments could be material.

(expressed in Canadian dollars)

The following represents the preliminary fair value of the assets acquired and liabilities assumed at the date of the transactions:

| | October 16, 2018 | |
|---|---|---|
| | Medac Pharma Inc. $ | Medexus Inc. $ |
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 748,793 | - |
| Accounts receivable | 9,569,485 | 864,994 |
| Prepaid expenses | 2,493,490 | 30,663 |
| Inventories | 2,141,968 | 1,152,758 |
| | 14,953,736 | 2,048,415 |
| **Property and equipment** | 321,978 | 533,500 |
| **Security and escrow deposits** | 672,776 | - |
| **Intangible assets** | 35,297,653 | 18,200,000 |
| **Total identifiable assets acquired** | 51,246,143 | 20,781,915 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Bank overdraft | - | 216,835 |
| Accounts payable and accrued liabilities | 9,818,851 | 1,487,515 |
| Assumed debt | - | 1,429,166 |
| | 9,818,851 | 3,133,516 |
| **Deferred tax liabilities** | 3,943,753 | 3,815,257 |
| **Total liabilities assumed** | 13,762,604 | 6,948,773 |
| **Net identifiable assets acquired** | 37,483,539 | 13,833,142 |
| **Goodwill*** | 3,943,753 | 5,262,857 |
| **Net assets acquired** | 41,427,292 | 19,095,999 |
| Acquisition effected by way of: | | |
| Cash consideration | 23,078,014 | - |
| Equity consideration | 2,178,072 | 19,095,999 |
| Balance of payable for business combination | 16,171,206 | - |
| | 41,427,292 | 19,095,999 |

* Goodwill is not deductible for tax purposes.

(expressed in Canadian dollars)

## 5 Accounts receivable

| | 2019 $ | 2018 $ |
|---|---|---|
| Trade accounts receivable, net of allowance for doubtful accounts of $30,000 (2018 – $30,000) | 9,757,344 | 730,971 |
| Sales taxes receivable | 134,029 | 7,483 |
| Other receivables | 45,342 | - |
| | 9,936,715 | 738,454 |

No trade accounts receivable were impaired as at March 31, 2019 and 2018.

## 6 Inventories

| | 2019 $ | 2018 $ |
|---|---|---|
| Raw materials | 603,479 | 426,147 |
| Finished goods | 5,054,818 | 1,763,131 |
| | 5,658,297 | 2,189,278 |

For the year ended March 31, 2019, the cost of inventories sold included in cost of sales is $8,877,371 (2018 – $3,524,752).

(expressed in Canadian dollars)

## 7 Property and equipment

| | Note | Computer equipment $ | Office furniture and equipment $ | Total $ |
|---|---|---|---|---|
| **For the year ended March 31, 2018** | | | | |
| Opening net book value | | 8,733 | 14,072 | 22,805 |
| Additions | | 8,431 | - | 8,431 |
| Depreciation | | (8,322) | (2,815) | (11,137) |
| **Closing net book value** | | 8,842 | 11,257 | 20,099 |
| **As at March 31, 2018** | | | | |
| Cost | | 121,234 | 51,865 | 173,099 |
| Accumulated depreciation | | (112,392) | (40,608) | (153,000) |
| **Net book value** | | 8,842 | 11,257 | 20,099 |
| **For the year ended March 31, 2019** | | | | |
| Opening net book value | | 8,842 | 11,257 | 20,099 |
| Additions | | 33,439 | 10,125 | 43,564 |
| Additions from business combinations | 4 | 16,747 | 838,731 | 855,478 |
| Depreciation | | (6,666) | (56,042) | (62,708) |
| Currency translation adjustment | | 538 | 10,141 | 10,679 |
| **Closing net book value** | | 52,900 | 814,212 | 867,112 |
| **As at March 31, 2019** | | | | |
| Cost | | 171,958 | 910,862 | 1,082,820 |
| Accumulated depreciation | | (119,058) | (96,650) | (215,708) |
| **Net book value** | | 52,900 | 814,212 | 867,112 |

(expressed in Canadian dollars)

## 8 Intangible assets

| | Note | Licences $ | Trademarks $ | Software $ | Total $ |
|---|---|---|---|---|---|
| **For the year ended March 31, 2018** | | | | | |
| Opening net book value | | 2,099,453 | 1,500 | 2,124 | 2,103,077 |
| Additions | | 715,978 | - | 3,300 | 719,278 |
| Amortization | | (216,869) | (300) | (2,856) | (220,025) |
| **Closing net book value** | | 2,598,562 | 1,200 | 2,568 | 2,602,330 |
| **As at March 31, 2018** | | | | | |
| Cost | | 3,103,932 | 4,500 | 37,130 | 3,145,562 |
| Accumulated amortization | | (505,370) | (3,300) | (34,562) | (543,232) |
| **Net book value** | | 2,598,562 | 1,200 | 2,568 | 2,602,330 |
| **For the year ended March 31, 2019** | | | | | |
| Opening net book value | | 2,598,562 | 1,200 | 2,568 | 2,602,330 |
| Additions | | 1,279,590 | - | 7,730 | 1,287,320 |
| Additions from business combinations | 4 | 53,497,653 | - | - | 53,497,653 |
| Amortization | | (2,517,127) | (300) | (1,418) | (2,518,845) |
| Impairment | | (124,746) | - | - | (124,746) |
| Currency translation adjustments | | 1,051,867 | - | - | 1,051,867 |
| **Closing net book value** | | 55,785,799 | 900 | 8,880 | 55,795,579 |
| **As at March 31, 2019** | | | | | |
| Cost | | 58,649,484 | 4,500 | 44,860 | 58,698,844 |
| Accumulated amortization | | (2,863,685) | (3,600) | (35,980) | (2,903,265) |
| **Net book value** | | 55,785,799 | 900 | 8,880 | 55,795,579 |

As at March 31, 2019, the average remaining life of the licences was approximately 7 years (2018 – 7 years).

For the year ended March 31, 2019, a total of $2,517,127 was recognized in cost of sales (2018 – $216,868), and a total of $1,718 (2018 – $3,157) was recognized in depreciation and amortization in the consolidated statement of loss and comprehensive loss.

### Impairment of intangible asset

The Company has agreed to discontinue the distribution of EpiCeram in Canada due to low product sales relative to the anticipated significant implementation costs to meet the Medical Device Single Audit program (MDSAP) quality management system requirements coming into effect in Canada on January 1, 2019. As a result, an impairment loss in the amount of $124,746 was recorded during the year ended March 31, 2019.

(expressed in Canadian dollars)

## 9 Accounts payable and accrued liabilities

| | 2019 $ | 2018 $ |
|---|---|---|
| Accounts payable – Trade | 4,010,826 | 734,617 |
| Accrued liabilities | 9,500,976 | 953,837 |
| | 13,511,802 | 1,688,454 |

## 10 Convertible debentures

| | Note | 2019 $ | 2018 $ |
|---|---|---|---|
| Convertible debentures issued in March 2015 | | - | 4,477,435 |
| Convertible Debentures issued in October 2018 | 3 | 24,255,167 | - |
| Embedded derivative on Convertible Debentures | 3 | 15,120,000 | - |
| Deferred financing transaction costs | | (1,729,666) | (111,808) |
| | | 37,645,501 | 4,365,627 |
| Current | | - | 20,000 |
| Non-current | | 37,645,501 | 4,345,627 |
| | | 37,645,501 | 4,365,627 |

### Convertible debenture issued in March 2015

On December 12, 2018, the Company announced that it had repaid in full its outstanding secured convertible debentures issued in 2015 (2015 Debentures) for a total payment of $5,743,833, representing the principal amount and accrued interest thereon, plus the required 2% early repayment fee.

### Convertible Debentures issued in October 2018

The Convertible Debentures will mature on October 16, 2023 and will be repaid in full by the Company with a payment equal to 125% of such outstanding principal amount, with such repayment to be made in cash or, at the Company's option, in common shares of the Company. The Convertible Debentures bear interest at a rate of 6.0% per annum beginning October 16, 2018, payable semiannually in cash, or, at the Company's option and subject to the prior approval of the TSXV, in common shares of the Company.

(expressed in Canadian dollars)

The Convertible Debentures are a compound financial instrument under IAS 32 and have both a liability and an embedded derivative component. The derivative is measured at FVPTL, and its fair value must be measured at each reporting period with subsequent changes in fair value recorded in the consolidated statement of loss.

At the date of acquisition, the fair value of the liability component was determined to be $23,143,076 and the fair value of the derivative component was determined to be $18,856,924. As at March 31, 2019, the fair value of the derivative component was determined to be $15,120,000 and the unrealized gain was included in financing costs (note 15).

The derivative was valued using a convertible bond valuation model with the following key assumptions:

| | |
|---|---|
| Expected remaining life | 4.5 years |
| Volatility* | 55.0% |
| Risk-free interest rate | 1.7% |

* Expected share price volatility was calculated using the Company's historical volatility.

**Other available credit facilities**

As at March 31, 2019, the Company had liquidity of $1 million available under a local credit facility held by Medexus.

## 11 Share capital

**Authorized and issued**

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

**Non-brokered private placement**

On May 24, 2017, the Company closed a non-brokered private placement of 14,705,883 units at a price of $0.34 per unit for gross proceeds of $5,000,000 with 9346-4626 Québec Inc., a private company operating as Transican (the subscriber). The total gross proceeds were allocated between common shares and warrants for amounts of $4,359,892 and $640,108, respectively.

(expressed in Canadian dollars)

Each unit comprises one common share in the capital of the Company and one half of one common share purchase warrant of the Company. Each whole warrant entitles the subscriber to purchase one common share at a price of $0.51 per share until May 24, 2020. The fair value of the warrants, using the Black-Scholes model, was valued at $0.0435 per half warrant. The assumptions used were expected volatility of 66.5%, a risk free rate of 0.78%, an expected life of three years, and an exercise price of $0.51 per common share. No commissions or fees were paid in connection with the offering, other than $43,035 in legal fees.

As a result of the closing of the transaction, the subscriber has become a new shareholder of the Company as a holder of more than 10% of the issued and outstanding common shares.

## 12 Share-based compensation

### Stock options

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price $ | Number of options | Weighted average exercise price $ |
| Options outstanding – Beginning of year | 529,347 | 5.40 | 473,069 | 5.55 |
| Granted | 3,333 | 4.50 | 78,333 | 4.50 |
| Exercised | (13,083) | 4.50 | - | - |
| Expired | (53,912) | 5.10 | (10,000) | 5.10 |
| Forfeited | - | - | (12,055) | 4.50 |
| Options outstanding – End of year | 465,685 | 5.41 | 529,347 | 5.40 |
| Options exercisable – End of year | 361,435 | 5.64 | 347,624 | 5.85 |

As at March 31, 2019, the options outstanding under the plan have a weighted average remaining life of approximately 5.5 years (2018 – 6.5 years).

| | Exercise price $ | Number of options outstanding |
|---|---|---|
| | 4.50 | 226,223 |
| | 5.10 | 85,000 |
| | 6.90 | 154,462 |
| Options outstanding – End of year | | 465,685 |

(expressed in Canadian dollars)

**Restricted stock units (RSUs)**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number of units | Weighted average exercise price $ | Number of units | Weighted average exercise price $ |
| RSUs outstanding – Beginning of year | - | - | - | - |
| Granted | 1,877,555 | 0.01 | - | - |
| RSUs outstanding – End of year | 1,877,555 | 0.01 | - | - |
| RSUs exercisable – End of year | - | N/A | - | - |

RSUs have a weighted average remaining life of approximately 9.5 years (2018 – nil).

a) Stock option plan

On January 22, 2014, the Company adopted a stock option plan for common shares. The plan provided that the terms and pricing of the options would be established by the directors.

The Company's stock option plan is a "rolling plan" under which the Company may grant options for a maximum of 10% of the issued and outstanding common shares of the Company at the time of the grant. The number of common shares that may be reserved under the stock option plan automatically increases or decreases as the number of issued and outstanding common shares of the Company increases or decreases.

On July 27, 2017, the Company granted 65,000 stock options to certain directors, officers and employees of the Company. The options were issued with an exercise price of $4.50 per share and have a term of 10 years. In addition, the options have varied vesting provisions such that they vest either over two or four years. The Company also granted 6,667 stock options to Direct Financial Strategies and Communications Inc. at an exercise price of $0.30 per share with a term of two years. These options will vest over a 12-month period at a rate of 25% per quarter.

On September 22, 2017, the Company granted of 6,666 stock options to a new director. The options were issued with an exercise price of $4.50 per share and have a term of 10 years. In addition, the options have vesting provisions such that they vest over two years.

b) Restricted stock units plan

On December 18, 2018, the Company adopted the 2018 Omnibus Equity Incentive Compensation Plan (the Plan), which, in respect of options to purchase common shares, replaced the Company's former stock option plan

(expressed in Canadian dollars)

The Plan provides that the Board of Directors may from time to time, in its discretion and in accordance with stock exchange requirements, grant to eligible participants non-transferable awards (Awards). Such awards include stock options, restricted share units (RSUs), deferred share units (DSUs) and performance share units (PSUs).

The maximum number of common shares issuable pursuant to all Awards issued under the Plan shall not exceed 20% of the outstanding common shares as of the date the plan was approved by shareholders of the Company. To the extent an Award lapses or the rights of its participant terminate, any common shares subject to such Award shall again be available for the grant of an Award.

The maximum number of common shares for which Awards may be issued to any one participant in any 12-month period shall not exceed 5% of the outstanding common shares, or 2% in the case of a grant of Awards to any consultant or persons (in the aggregate) retained to provide Investor Relations Activities (as defined by the TSXV), calculated on the date an Award is granted to the participant, unless disinterested shareholder approval as required by the policies of the TSXV is obtained. The maximum number of RSUs, DSUs or PSUs which may be issued to any one participant in any 12-month period shall not exceed 1% of the outstanding shares, unless disinterested shareholder approval is obtained. The maximum number of RSUs, DSUs or PSUs which may be issued to all insiders in aggregate cannot exceed 2% of the outstanding common shares in any 12-month period, unless disinterested shareholder approval is obtained.

Furthermore, unless disinterested shareholder approval as required by the policies of the TSXV is obtained: (i) the maximum number of common shares for which Awards may be issued to insiders of the Company (as a group) at any point in time shall not exceed 10% of the outstanding common shares; and (ii) the aggregate number of Awards granted to insiders of the Company (as a group), within any 12-month period, shall not exceed 10% of the outstanding common shares, calculated at the date an Award is granted to any insider.

On December 12, 2018, at the Company’s annual and special meeting, the shareholders of the Company approved the Plan and the Company received disinterested shareholder approval (i) to issue Awards to insiders of the Company which, in the aggregate, would exceed 10% of the issued and outstanding common shares as at December 12, 2018; (ii) for specific RSU grants which would exceed 1% of the issued and outstanding common shares to each of four participants; and (iii) for RSU grants to insiders which, in the aggregate, would exceed 2% of the issued and outstanding common shares of the Company.

On December 19, 2018, the Company issued an aggregate of 1,877,555 RSUs to certain directors, officers and employees of the Company and 3,333 stock options (Options) to a director of the Company under the Plan. The RSUs will vest in equal amounts upon the first, second, third and fourth anniversaries of the effective issuance date, and the Options will vest upon issuance. The exercise price of the Options is $4.50 per share. The RSUs are exercisable for a nominal payment per share. Each vested RSU and Option entitles the holder to receive one common share of the Company by delivering an exercise notice in accordance with the Plan and the terms of the applicable award agreement.

On December 19, 2018, the Company completed the Share Consolidation (note 1) and, as a result, all stock option and share award disclosures have been retrospectively adjusted to reflect the Share Consolidation.

(expressed in Canadian dollars)

As at March 31, 2019, a total of 606,012 common shares remained authorized for issuance under the omnibus plan.

All options and RSUs granted become immediately exercisable in the event of any change of control of the Company.

In estimating the share-based compensation expense for options granted to directors, officers, employees and consultants, the Company uses the Black-Scholes option pricing model. The assumptions used for options granted were as follows:

| | 2019 | 2018 |
|---|---|---|
| Risk-free interest rate | 2.0% | 1.28% to 1.67% |
| Volatility* | 63.9% | 62% |
| Expected life | 1 year | 2 to 6 years |
| Expected dividend yield | Nil | Nil |
| Expected forfeiture rate | Nil | 5% |
| Fair value per option granted | $1.16 | $0.10 to $0.17 |

* Expected share price volatility was calculated using the Company's historical volatility.

For the year ended March 31, 2019, the share-based compensation expense with respect to these options and RSUs as well as the vesting of previously granted options amounted to $733,927 (2018 – $267,812) and is included in selling and administrative expenses in the consolidated statement of loss and comprehensive loss.

## 13 Warrants

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | Note | Number of warrants | Weighted average exercise price $ | Fair value $ | Number of warrants | Weighted average exercise price $ | Fair value $ |
| Warrants outstanding – Beginning of year | | 712,396 | 6.75 | 1,121,862 | 222,200 | 4.95 | 343,979 |
| Issued as part of private placement | 11 | - | - | - | 490,196 | 7.65 | 640,108 |
| Issued as part of business combinations and private placement | 3, 4 | 2,389,042 | 9.45 | 3,943,348 | - | - | - |
| Extension of warrants | | - | - | - | - | - | 137,775 |
| Expired | | (808) | 4.95 | (1,251) | - | - | - |
| Warrants outstanding – End of year | | 3,100,630 | 8.84 | 5,063,959 | 712,396 | 6.75 | 1,121,862 |

(expressed in Canadian dollars)

Warrants outstanding as at March 31, 2019:

| | Number of warrants outstanding | Price per warrant $ | Expiry |
|---|---|---|---|
| | 221,392 | 4.95 | March 2020 |
| | 490,196 | 7.65 | May 2020 |
| | 191,154 | 9.45 | October 2021 |
| | 2,197,888 | 9.45 | October 2023 |
| Warrants outstanding – End of year | 3,100,630 | | |

The Company uses the Black-Scholes option pricing model to estimate the value of the warrants. The assumptions used for warrants granted were as follows:

| | 2019 | 2018 |
|---|---|---|
| Risk-free interest rate | 2.32% to 2.42% | 0.78% |
| Volatility* | 56% to 64% | 66% |
| Expected life | 3 to 5 years | 3 years |
| Expected dividend yield | Nil | Nil |
| Expected forfeiture rate | Nil | Nil |
| Fair value per warrant granted | $1.07 to $1.35 | $1.31 |

* Expected share price volatility was calculated using the Company's historical volatility.

## 14 Selling and administrative expenses

| | 2019 $ | 2018 $ |
|---|---|---|
| Share-based compensation expense | 733,927 | 267,812 |
| Sales and marketing expense | 13,317,352 | 4,845,976 |
| Business development and regulatory affairs | 2,176,667 | 973,156 |
| General administrative | 4,621,805 | 1,775,493 |
| | 20,849,751 | 7,862,437 |

(expressed in Canadian dollars)

## 15 Financing costs

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Interest on convertible debentures | 1,699,516 | 669,167 |
| Interest accretion on convertible debentures, net of amortization of deferred financing costs | 1,675,359 | 517,508 |
| Interest accretion on balance of payable for business combination | 503,120 | - |
| Convertible Debentures – Unrealized gain on fair value of derivative | (3,736,924) | - |
| Gain on extension of convertible debentures maturity date | - | (475,702) |
| | 141,071 | 710,973 |

## 16 Employee benefit expense

a) Employees other than the Company's key management personnel as described in (b)

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Salaries and benefits | 7,033,219 | 2,045,446 |
| Share-based compensation | 79,652 | 42,684 |
| | 7,112,871 | 2,088,130 |

b) Key management personnel consist of the Company's Chief Executive Officer, Chief Financial Officer, Presidents of the US and Canadian entities, Vice-Presidents and Board of Directors.

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Key management compensation** | | |
| Short-term employee benefits and consulting fees | 2,829,197 | 1,490,692 |
| Share-based compensation | 654,275 | 225,128 |
| | 3,483,472 | 1,715,820 |

Key management compensation is included in selling and administrative expenses.

(expressed in Canadian dollars)

## 17 Related party transactions

All related party transactions, unless otherwise disclosed, occurred in the normal course of operations.

a) The Company pays warehouse fees to a company 50% owned by a key management personnel of the Company. For the year ended March 31, 2019, $146,812 (2018 – nil) was paid in warehouse fees.

b) On December 12, 2018, the Company repaid the 2015 Debentures (note 10), originally issued on March 30, 2015, pursuant to their terms.

c) During the year ended March 31, 2019, the Company repaid the following amounts:

- $104,433, comprised $100,000 representing the outstanding principal amount, $2,433 representing accrued interest and $2,000 representing an early repayment fee of 2% on the outstanding principal amount, was paid to a former director of the Company; and
- $104,433, comprised $100,000 representing the outstanding principal amount, $2,433 representing accrued interest and $2,000 representing an early repayment fee of 2% on the outstanding principal amount, was paid to a director of the Company.

d) During the year ended March 31, 2019, $169,866 was paid in interest on Convertible Debentures issued on October 16, 2018 (note 3) which are owned or controlled, directly and indirectly, by two directors of the Company.

## 18 Global exclusive licensing agreement

On September 19, 2016, the Company signed an exclusive licensing agreement (the licensing agreement) with 9346-4626 Québec Inc., a company owned by Mr. Gerard Leduc (the licensor), a globally known pharmaceutical executive, for the drug Relaxa (the product). Under the terms of the licensing agreement, the Company has the exclusive right to manufacture, promote, market, sell and distribute the product globally. In return, the Company will pay the licensor royalties based on annual net sales of the product. Pursuant to the terms of the licensing agreement, the Company has the right to acquire the product at any time until the seventh anniversary of the effective date of the licensing agreement. The aggregate price payable for the product during such term shall be $5,000,000 plus a 2% royalty on the annual net sales of the product up to a maximum of $1,500,000 (the option exercise price). Moreover, for the term commencing on the fifth anniversary of the effective date of the licensing agreement and ending on the seventh anniversary of the effective date of the licensing agreement, the licensor will have the option to sell the product to the Company for the same option exercise price.

Following the closing of the non-brokered private placement in on May 24, 2017 (note 11), 9346-4646 Québec Inc. is now considered as a significant shareholder of the Company.

(expressed in Canadian dollars)

During the year ended March 31, 2019, the Company incurred a total of $318,023 (2018 – $226,723) in royalties payable to 9346-4646 Québec Inc., and a total of $89,128 (2018 – $55,850) is included in accounts payable and accrued liabilities as at March 31, 2019.

## 19 Consolidated statements of cash flows

Changes in non-cash operating working capital items are as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| Decrease (increase) in | | |
| Accounts receivable | 1,547,630 | (100,013) |
| Prepaid expenses and deferred costs | 689,627 | (81,114) |
| Inventories | (107,358) | (484,738) |
| Increase (decrease) in | | |
| Accounts payable and accrued liabilities | (668,736) | (254,730) |
| Income tax payable | 632,367 | - |
| | 2,093,530 | (920,595) |

## 20 Commitments

The future minimum payments required under long-term operating leases for the Company's office spaces are as follows:

| | $ |
|---|---|
| Years ending March 31, 2020 | 467,465 |
| 2021 | 472,909 |
| 2022 | 204,821 |
| 2023 | 76,669 |

Total rent expense for the year ended March 31, 2019 was $251,358 (2018 – $120,597).

(expressed in Canadian dollars)

## 21 Geographic information

The geographic segmentation of the Company's non-current assets is as follows:

| **As at March 31, 2019** | **$** |
|---|---|
| United States | 40,206,904 |
| Canada | 26,486,822 |

The geographic segmentation of the Company's sales based on customer location is as follows:

| **Year-ended March 31,2019*** | **$** |
|---|---|
| United States | 17,818,982 |
| Canada | 16,045,046 |

* These figures include results for the period from April 1, 2018 to March 31, 2019 for the Company (pre-transaction) (note 1) as well as for the period from October 16, 2018 to March 31, 2019 for the entities acquired on October 16, 2018 (note 4).

## 22 Income taxes

Income tax expense includes the following components:

| | **2019**<br>**$** | **2018**<br>**$** |
|---|---|---|
| **Current** | | |
| United States | 632,367 | - |
| **Deferred** | | |
| United States | (135,679) | - |
| Canada | (274,662) | - |
| | (410,341) | - |
| **Total income tax expense** | 222,026 | - |

A reconciliation of income taxes at the Canadian statutory rate with reported income taxes is as follows:

(expressed in Canadian dollars)

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Statutory federal and provincial tax | (1,741,438) | (929,866) |
| Increase (decrease) in taxes recoverable resulting from: | | |
| Impact of rate differential of foreign jurisdiction | (41,772) | - |
| Effect of change in valuation allowance | 860,249 | 858,861 |
| Non-deductible share-based compensation | 195,958 | 71,506 |
| Non-deductible expenses for tax purposes | 735,031 | 12,170 |
| Other differences | 213,998 | (12,671) |
| | 222,026 | - |

The Canadian combined statutory rate as at March 31, 2019 was 26.7% (2018 – 26.7%).

The Company has accumulated non-capital losses in Canada which can be carried forward to reduce future taxable income and which expire as follows:

| | Total<br>$ |
|---|---|
| 2026 | 753,949 |
| 2027 | 740,791 |
| 2028 | 612,683 |
| 2029 | 700,862 |
| 2030 | 1,998,228 |
| 2031 | 1,739,847 |
| 2032 | 2,120,629 |
| 2033 | 847,524 |
| 2034 | 1,197,126 |
| 2035 | 5,136,782 |
| 2036 | 3,281,248 |
| 2037 | 3,000,407 |
| 2038 | 5,508,116 |
| 2039 | 3,196,815 |
| | 30,835,007 |

The future benefit of these losses has not been recognized in the accounts.

(expressed in Canadian dollars)

Significant components of the Company's unrecognized deferred tax assets and deferred tax liabilities are as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Deferred tax assets** | | |
| Non-capital loss carryforwards | 1,095,297 | - |
| Other | 65,928 | - |
| **Total deferred tax assets** | 1,161,225 | - |
| **Deferred tax liabilities** | | |
| Property and equipment and intangible assets | (8,639,585) | - |
| **Net deferred tax liabilities** | (7,478,360) | - |

## 23 Financial instruments

### Fair value estimation

The Company measures the fair value of its financial assets and financial liabilities using a fair value hierarchy. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value. The different levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques that maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to determine fair value of an instrument are observable, the instrument is included in Level 2.

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are considered to be equal to their respective carrying values due to their short-term maturities.

(expressed in Canadian dollars)

In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are liquidity risk, credit risk and market risk. The Company's overall risk management program and prudent business practices seek to minimize any potential adverse effects on the Company's financial performance.

**Liquidity risk**

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with liabilities and other payment obligations. Liquidity risk is managed by maintaining adequate reserves and banking facilities and by closely monitoring forecast and actual cash flows. The Company is exposed to this risk mainly in respect of its accounts payable and accrued liabilities, convertible debentures and balance of payable for business combination.

The tables below categorize the Company's financial liabilities into relevant maturity groupings based on the remaining periods at the consolidated statement of financial position dates to the contractual maturity dates. The amounts disclosed in the tables are the contractual undiscounted cash flows.

| | | | | **2019** |
|---|---|---|---|---|
| | **Less than 3 months $** | **Between 3 months and 1 year $** | **Between 1 and 5 years $** | **Total $** |
| Accounts payable and accrued liabilities | 13,511,802 | - | - | 13,511,802 |
| Convertible debentures – Host | - | - | 22,525,501 | 22,525,501 |
| Convertible debentures – Derivative | - | - | 15,120,000 | 15,120,000 |
| Balance of payable for business combinations | - | | 17,021,124 | 17,021,124 |
| | 13,511,802 | - | 54,666,625 | 68,178,427 |

| | | | | **2018** |
|---|---|---|---|---|
| | **Less than 3 months $** | **Between 3 months and 1 year $** | **Between 1 and 5 years $** | **Total $** |
| Accounts payable and accrued liabilities | 1,688,454 | - | - | 1,688,454 |
| Interest payable | 165,613 | - | - | 165,613 |
| Convertible debentures | - | 20,000 | 5,480,000 | 5,500,000 |
| | 1,854,067 | 20,000 | 5,480,000 | 7,354,067 |

(expressed in Canadian dollars)

**Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed mainly to credit risk on its cash and cash equivalents and accounts receivable. The Company offers credit to its customers in the normal course of its operations. It continually assesses the credit risk of its customers and accounts for an allowance for doubtful accounts, if any. The credit risk on cash and cash equivalents is mitigated by the fact that they are held with major Canadian financial institutions.

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is exposed mainly to currency risk and interest rate risk. The exposures of the Company are monitored regularly by the Company's management.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The consolidated statements of financial position have amounts denominated in other currencies as follows, expressed in Canadian dollars:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Cash and cash equivalents | | |
| US dollar | 8,366,806 | 9,150 |
| Euro | 584,449 | 7,458 |
| Accounts receivable | | |
| US dollar | 9,875,411 | - |
| Accounts payable and accrued liabilities | | |
| US dollar | (7,033,629) | - |
| Euro | (2,164,607) | - |
| Balance of payable for business combination | | |
| US dollar | (17,021,124) | - |

The table below shows the immediate increase (decrease) on net loss and other comprehensive loss of a 10% strengthening in the closing exchange rate of significant currencies to which the Company has exposure at March 31, 2019 and 2018. The sensitivity associated with a 10% weakening of a particular currency would be equal and opposite. This assumes that each currency moves in isolation. The Company does not enter into arrangements to hedge its currency risk exposure.

(expressed in Canadian dollars)

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| 10% strengthening of the CA$:US$ exchange rate | | |
| Impact on net loss | 1,691,000 | - |
| Impact on other comprehensive loss | (962,000) | - |
| 10% strengthening of the CA$:EUR exchange rate | | |
| Impact on net loss and other comprehensive loss | 158,000 | - |

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed rate instruments subject the Company to fair value risk, while floating rate instruments subject it to cash flow risk. The Company has performed a sensitivity analysis on interest rate risk as at March 31, 2019 and 2018. A change in interest rates on borrowings of 1% higher or lower would not have a significant impact on loss and comprehensive loss for the year.

The Company is exposed to interest rate risk as follows:

| | |
|---|---|
| Cash and cash equivalents | Floating rate |
| Accounts receivable | Non-interest bearing |
| Accounts payable and accrued liabilities | Non-interest bearing |
| Convertible debentures | As described in notes 3 and 10 |
| Balance of payable for business combination | Non-interest bearing |

**Capital risk management**

The common shares are managed as the capital of the Company for all years concerned. The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to minimize the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new common shares or units from time to time.

(expressed in Canadian dollars)

## 24 Quarterly adjustments (unaudited)

The quarterly condensed interim consolidated financial statements for the three- and nine-month periods ended December 31, 2018 reported the conversion option of the convertible debentures as an equity component and recorded in contributed surplus. Upon further review of the facts and circumstances, it was determined that the conversion option was not an equity instrument and should have been classified as an embedded derivative and included in long-term liabilities, in accordance with IAS 32, Financial Instruments: Presentation. The effects of the adjustment to the unaudited condensed interim consolidated financial statements is as follows:

Unaudited interim consolidated statement of financial position:

| | As at December 31, 2018 | | |
|---|---|---|---|
| | Previously stated $ | Adjustment $ | Adjusted $ |
| Convertible debentures – Derivative | - | 18,856,924 | 18,856,924 |
| Total liabilities | 55,309,995 | 18,856,924 | 74,166,919 |
| Contributed surplus | 26,518,786 | (18,856,924) | 7,661,862 |
| Total equity | 57,219,334 | (18,856,924) | 38,362,410 |

There was no significant adjustment to the unaudited interim consolidated statement of loss and comprehensive loss.