

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated
Financial Statements
(unaudited)

**For the three-month period ended
June 30, 2019**
(expressed in Canadian dollars)

Notice to Reader

The accompanying unaudited condensed interim consolidated financial statements of MEDEXUS PHARMACEUTICALS INC. (the "Company") for the three-month period ended June 30, 2019 have been prepared by the management and are its responsibility. These unaudited condensed interim consolidated financial statements, together with the accompanying notes, have been reviewed and approved by the members of the Company's audit committee. These unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated Statements of Financial Position (unaudited)

(expressed in Canadian dollars)

As at	Note	June 30, 2019 \$	March 31, 2019 \$
Assets			
Current assets			
Cash and cash equivalents		27,394,285	29,205,486
Accounts receivable	4	14,200,152	9,936,715
Prepaid expenses		1,778,554	2,010,331
Inventories	5	5,165,976	5,658,297
		<hr/> 48,538,967	<hr/> 46,810,829
Security deposits		699,707	694,876
Property and equipment	6	1,915,804	867,112
Intangible assets	7	54,202,004	55,795,579
Goodwill	7	9,252,028	9,336,159
		<hr/> 114,608,510	<hr/> 113,504,555
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	15,707,474	13,511,802
Interest payable		628,274	-
Income tax payable		702,701	631,705
Lease liabilities		447,537	-
		<hr/> 17,485,986	<hr/> 14,143,507
Convertible debentures – Host	9	23,477,560	22,525,501
Convertible debentures – Derivative	9	14,410,000	15,120,000
Deferred tax liabilities		7,400,660	7,478,360
Balance of payable for business combination		17,166,746	17,021,124
Lease liabilities		652,533	-
		<hr/> 80,593,485	<hr/> 76,288,492
Shareholders' Equity			
Share capital		61,285,373	61,944,145
Contributed surplus		8,146,264	7,598,306
Cumulative translation adjustment		472,331	1,408,032
Deficit		(35,888,943)	(33,734,420)
		<hr/> 34,015,025	<hr/> 37,216,063
		<hr/> 114,608,510	<hr/> 113,504,555

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (unaudited)

(expressed in Canadian dollars)

Three-month periods ended June 30	Note	2019 \$	2018 \$
Revenue			
Products		16,127,247	3,249,139
Cost of sales			
Cost of sales of products		5,259,256	1,435,017
Amortization of product licences	7	963,801	76,122
		<u>6,223,057</u>	<u>1,511,139</u>
Gross profit		9,904,190	1,738,000
Selling and administrative expenses	11	10,494,087	2,149,219
Research and development expenses		402,901	-
Depreciation and amortization	6,7	154,348	1,929
		<u>(1,147,146)</u>	<u>(413,148)</u>
Operating loss		(1,147,146)	(413,148)
Financing costs	12	1,480,204	279,146
Interest income		(100,227)	(9,202)
Foreign exchange loss (gain)		(458,507)	8,998
		<u>(2,068,617)</u>	<u>(692,090)</u>
Loss before income taxes		(2,068,617)	(692,090)
Income tax expense		85,906	-
		<u>(2,154,523)</u>	<u>(692,090)</u>
Net loss		(2,154,523)	(692,090)
Other comprehensive loss			
Foreign currency loss on translation of foreign operations		(935,701)	-
		<u>(3,090,224)</u>	<u>(692,090)</u>
Comprehensive loss		(3,090,224)	(692,090)
Net loss per share attributable to shareholders of the Company			
Basic and diluted		(0.15)	(0.12)
Weighted average number of common shares outstanding		14,743,280	5,827,666

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (unaudited)

(expressed in Canadian dollars)

		<u>Share capital</u>					
Note	Common shares	Amount \$	Contributed surplus \$	Cumulative translation adjustment \$	Deficit \$	Total shareholders' equity \$	
	Balance – April 1, 2018	5,827,666	25,347,384	4,902,565	-	(27,212,181)	3,037,768
	Net loss and comprehensive loss	-	-	-	-	(692,090)	(692,090)
	Share-based compensation – Stock option plan	-	-	50,578	-	-	50,578
	Balance – June 30, 2018	5,827,666	25,347,384	4,953,143	-	(27,904,271)	2,396,256
	Balance – April 1, 2019	14,746,260	61,944,145	7,598,306	1,408,032	(33,734,420)	37,216,063
	Net loss	-	-	-	-	(2,154,523)	(2,154,523)
	Other comprehensive income	-	-	-	(935,701)	-	(935,701)
	Treasury shares acquired and canceled	(135,600)	(658,772)	-	-	-	(658,772)
	Share-based compensation – Stock option plan	-	-	21,069	-	-	21,069
10	Share-based compensation – RSU plan	-	-	526,889	-	-	526,889
	Balance – June 30, 2019	14,610,660	61,285,373	8,146,264	472,331	(35,888,943)	34,015,025

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated Statements of Cash Flows (unaudited)

(expressed in Canadian dollars)

Three-month periods ended June 30	Note	2019 \$	2018 \$
Cash flows from			
Operating activities			
Net loss		(2,154,523)	(692,090)
Adjustments for			
Depreciation of property and equipment	6	153,996	1,579
Amortization of intangible assets	7	964,153	76,472
Share-based compensation expense	11	547,948	50,578
Interest expense	12	2,190,204	279,146
Convertible debentures – Unrealized gain on fair value of derivative	12	(710,000)	-
Unrealized foreign exchange loss		(450,263)	-
Interest income		(100,227)	(9,202)
		<hr/>	<hr/>
		441,288	(293,517)
Changes in non-cash operating working capital items	15	(729,589)	116,402
Interest paid		(16,746)	(165,613)
Interest received		100,227	9,202
		<hr/>	<hr/>
		(204,820)	(333,526)
Investing activities			
Purchases of property and equipment		(36,622)	-
Purchases of intangible assets		(612,891)	(7,380)
		<hr/>	<hr/>
		(649,513)	(7,380)
Financing activities			
Treasury shares acquired and cancelled		(658,772)	-
Repayment of lease liabilities		(110,730)	-
		<hr/>	<hr/>
		(769,502)	-
Net change in cash and cash equivalents during the period		(1,623,835)	(340,906)
Impact of foreign exchange on cash and cash equivalents		(187,366)	-
Cash and cash equivalents – Beginning of period		29,205,486	3,608,506
Cash and cash equivalents – End of period		<hr/>	<hr/>
		27,394,285	3,267,600

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in Canadian dollars)

1 Incorporation and nature of activities

Medexus Pharmaceuticals Inc. (the “Company”) is a specialty pharmaceutical company which licenses and acquires pharmaceutical products for commercialization in the USA and Canada. The Company exists under the Canada Business Corporations Act and is domiciled in Canada. 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).

2 Basis of presentation and summary of significant accounting policies

Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB). Certain information and disclosures have been omitted or condensed. With the exception of the adoption of IFRS 16, which was adopted by the Company on April 1, 2019 using the modified retrospective method, the same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as were followed in the preparation of the most recent annual audited consolidated financial statements. Accordingly, these condensed interim consolidated financial statements should be read together with the Company’s audited consolidated financial statements and notes thereto for the fiscal year ended March 31, 2019.

These condensed consolidated interim financial statements are presented in Canadian dollars which is the functional currency of the Company. The Company has a United States subsidiary that has the United States dollar as its functional currency. As the Company has operations in the United States, the consolidated financial results may vary between periods due to the effect of foreign exchange fluctuations in translating the revenues and expenses of its operations in the United States to Canadian dollars.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors of the Company on August 22, 2019.

Seasonality of interim operations

The operations of the Company can be seasonal, and the results of operations for any interim period are not necessarily indicative of operations for the full fiscal year or any future period.

Estimates, judgments and assumptions

The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and reported amounts of revenues and expenses during the period. These estimates and assumptions are based on historical experience, expectations of the future, and other

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in Canadian dollars)

relevant factors and are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of uncertainty are as those applied and described in the Company's audited annual consolidated financial statements for the year ended March 31, 2019, supplemented by the additional significant judgments and key sources of uncertainty detailed below.

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. These condensed interim consolidated financial statements include the Company's subsidiaries. As at June 30, 2019, MI Acquisitions, Inc., Medac Pharma, Inc., Medexus Inc., and Pediapharm Licensing Inc. are the only wholly owned direct and indirect subsidiaries of the Company. Pediapharm Licensing Inc. does not carry on active business currently and MI Acquisitions, Inc. was created solely for the purpose of acquiring Medac Pharma, Inc. and it does not carry on active business other than the ownership of 100% of the outstanding shares of Medac Pharma, Inc.

Accounting standards and interpretations issued and effects

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.

The Company has adopted IFRS 16 on a modified retrospective basis whereby the adjustments have been recorded on April 1, 2019 without adjustments to prior periods. Starting from that date, rent expense has been substituted by depreciation of the right-of-use asset and interest expense on the lease liabilities, and principal payments on the lease liability has been presented as financing cash outflows.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in Canadian dollars)

IFRS 16, *Leases*, has the following impact on the fiscal 2020 opening amounts:

As at April 1, 2019	As reported under IAS 17 \$	IFRS 16 effects \$	As reported under IFRS 16 \$
Non-current assets			
Property and equipment	867,112	1,080,088	1,947,200
Current liabilities			
Lease liabilities	-	397,087	397,087
Non-current liabilities			
Lease liabilities	-	683,001	683,001

The weighted average incremental borrowing rates applied to lease liabilities recognized in the consolidated balance sheet at the date of initial application was 6.0%. For the three-months ended June 30, 2019, principal payments on the lease liabilities was \$110,730, and interest expense was \$16,746.

New standards not yet adopted by the Company

In October 2018, the International Accounting Standards Board amended IFRS 3, *Business Combinations*, seeking to clarify whether an acquisition transaction results in the acquisition of an asset or the acquisition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. The amendments are effective for acquisition transactions on or after January 1, 2020, although earlier application is permitted. We are currently assessing the impacts and transition provisions of the amended standard; however, we expect that we will apply the standard prospectively from January 1, 2020. The effects, if any, of the amended standard on our financial performance and disclosure will be dependent on the facts and circumstances of any future acquisition transactions.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in Canadian dollars)

3 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., 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. The Company acquired Medac Pharma Inc. as part of its ongoing effort to gain scale and enter a new geographic area.

The Company has not finalized its review of the books and records of Medac Pharma Inc., 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 Inc., indirectly through a subsidiary created for the purposes of the acquisition, pursuant to the terms of an amalgamation agreement dated September 6, 2018. Medexus Inc. is a Canadian pharmaceutical company with partnerships in international markets. The Company acquired Medexus Inc. as part of its ongoing effort to gain scale and enter a new therapeutic area.

The Company has not finalized its review of the books and records of Medexus Inc., 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.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(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
	<hr/> 14,953,736	<hr/> 2,048,415
Property and equipment	321,978	533,500
Security and escrow deposits	672,776	-
Intangible assets	35,297,653	18,200,000
	<hr/> 51,246,143	<hr/> 20,781,915
Total identifiable assets acquired		
Liabilities		
Current liabilities		
Bank overdraft	-	216,835
Accounts payable and accrued liabilities	9,818,851	1,487,515
Assumed debt	-	1,429,166
	<hr/> 9,818,851	<hr/> 3,133,516
Deferred tax liabilities	3,943,753	3,815,257
	<hr/> 13,762,604	<hr/> 6,948,773
Total liabilities assumed		
Net identifiable assets acquired	37,483,539	13,833,142
Goodwill*	3,943,753	5,262,857
	<hr/> 41,427,292	<hr/> 19,095,999
Net assets acquired		
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	-
	<hr/> 41,427,292	<hr/> 19,095,999

* Goodwill is not deductible for tax purposes.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in Canadian dollars)

4 Accounts receivable

As at	June 30, 2019 \$	March 31, 2019 \$
Trade accounts receivable, net of allowance for doubtful accounts of \$30,000 (March 31, 2019 – \$30,000)	14,034,195	9,757,344
Sales taxes receivable	165,957	134,029
Other receivables	-	45,342
	<hr/>	<hr/>
	14,200,152	9,936,715

5 Inventories

As at	June 30, 2019 \$	March 31, 2019 \$
Raw materials	579,134	603,479
Finished goods	4,586,842	5,054,818
	<hr/>	<hr/>
	5,165,976	5,658,297

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in Canadian dollars)

6 Property and equipment

	Note	Computer equipment \$	Office furniture and equipment \$	Right-of- use lease assets \$	Total \$
Net book value at April 1, 2019					
As previously reported		52,900	814,212	-	867,112
IFRS 16, Leases transitional amount	2	-	-	1,080,088	1,080,088
As adjusted		52,900	814,212	1,080,088	1,947,200
Additions		36,622	-	103,789	140,411
Depreciation		(18,087)	(22,986)	(112,923)	(153,996)
Currency translation adjustment		(39)	(4,791)	(12,981)	(17,811)
Net book value at June 30, 2019		71,396	786,435	1,057,973	1,915,804
As at June 30, 2019					
Cost		208,140	904,382	1,169,180	2,281,702
Accumulated depreciation		(136,744)	(117,947)	(111,207)	(365,898)
Net book value		71,396	786,435	1,057,973	1,915,804
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

7 Intangible assets and Goodwill

	Intangible assets subject to amortization				Goodwill \$
	Licences \$	Trademarks \$	Software \$	Total \$	
Net book value at April 1, 2019	55,785,799	900	8,880	55,795,579	9,336,159
Additions	-	-	-	-	-
Amortization	(963,801)	(75)	(277)	(964,153)	-
Currency translation adjustment	(629,422)	-	-	(629,422)	(84,131)
Net book value at June 30, 2019	54,192,576	825	8,603	54,202,004	9,252,028
As at June 30, 2019					
Cost	57,970,737	4,500	44,860	58,020,097	9,252,028
Accumulated amortization	(3,778,161)	(3,675)	(36,257)	(3,818,093)	-
Net book value	54,192,576	825	8,603	54,202,004	9,252,028
As at March 31, 2019					
Cost	58,649,484	4,500	44,860	58,698,844	9,336,159
Accumulated amortization	(2,863,685)	(3,600)	(35,980)	(2,903,265)	-
Net book value	55,785,799	900	8,880	55,795,579	9,336,159

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in Canadian dollars)

8 Accounts payable and accrued liabilities

As at	June 30, 2019 \$	March 31, 2019 \$
Accounts payable – Trade	5,849,228	4,010,826
Accrued liabilities	9,858,246	9,500,976
	<u>15,707,474</u>	<u>13,511,802</u>

9 Convertible debentures

As at	June 30, 2019 \$	March 31, 2019 \$
Convertible Debentures issued in October 2018	25,150,720	24,255,167
Embedded derivative on Convertible Debentures	14,410,000	15,120,000
Deferred financing transaction costs	(1,673,160)	(1,729,666)
	<u>37,887,560</u>	<u>37,645,501</u>
Current	-	-
Non-current	<u>37,887,560</u>	<u>37,645,501</u>
	<u>37,887,560</u>	<u>37,645,501</u>

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 the outstanding principal amount together with all accrued and unpaid interest, 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 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. As at June 30, 2019, the fair value of the derivative component was determined to be \$14,410,000 and the unrealized gain was included in financing costs (note 12).

Other available credit facilities

As at June 30, 2019, the Company had liquidity of \$1 million available under a local credit facility.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in Canadian dollars)

10 Share-based compensation

Stock options

	Number of options	Weighted average exercise price \$
For the three-month periods ended June 30, 2019		
Options outstanding – Beginning and end of period	465,685	5.41

Restricted stock units (RSUs)

	Number of units	Weighted average exercise price \$
For the three-month periods ended June 30, 2019		
RSUs outstanding – Beginning of period	1,877,555	0.01
Forfeited	(10,000)	0.01
RSUs outstanding –End of period	1,867,555	0.01

For the three-month period ended June 30, 2019, the share-based compensation expense with respect to these options and RSUs amounted to \$547,948 (2018 – \$50,578) and is included in selling and administrative expenses in the condensed interim consolidated statement of loss and comprehensive loss (note 11).

11 Selling and administrative expenses

For the three-month periods ended June 30	2019 \$	2018 \$
Share-based compensation expense	547,948	50,578
Sales and marketing expense	6,291,779	1,425,878
Business development and regulatory affairs	1,113,665	214,926
General administrative	2,540,695	457,837
	<u>10,494,087</u>	<u>2,149,219</u>

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in Canadian dollars)

12 Financing costs

For the three-month periods ended June 30	2019	2018
	\$	\$
Interest on convertible debentures	628,274	166,833
Interest accretion on convertible debentures, including amortization of deferred financing costs	952,060	112,313
Interest accretion on balance of payable for business combination	593,124	-
Interest on lease liabilities	16,746	-
	<hr/>	<hr/>
Interest expense	2,190,204	279,146
Convertible Debentures – Unrealized gain on fair value of derivative	(710,000)	-
	<hr/>	<hr/>
	1,480,204	279,146

13 Employee benefit expense

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

For the three-month periods ended June 30	2019	2018
	\$	\$
Salaries and benefits	3,066,172	582,455
Share-based compensation	41,220	11,753
	<hr/>	<hr/>
	3,107,392	594,208

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.

For the three-month periods ended June 30	2019	2018
	\$	\$
Key management compensation		
Salaries, benefits and director fees	1,179,091	362,111
Share-based compensation	506,728	38,858
	<hr/>	<hr/>
	1,685,819	400,969

Key management compensation is included in selling and administrative expenses.

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Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in Canadian dollars)

14 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 three-month period ended June 30, 2019, \$86,088 was paid in warehouse fees.
- b) During the three-month period ended June 30, 2019, \$113,633 was paid in royalties on an exclusive licensing agreement with a significant shareholder of the Company.
- c) During the three-month period ended June 30, 2019, \$91,624 was paid in interest on Convertible Debentures which are owned or controlled, directly and indirectly, by two directors of the Company.

15 Consolidated statements of cash flows

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

For the three-month periods ended June 30	2019 \$	2018 \$
Decrease (increase) in		
Accounts receivable	(4,488,136)	(502,151)
Prepaid expenses	201,949	(83,902)
Inventories	466,158	371,312
Increase (decrease) in		
Accounts payable and accrued liabilities	3,004,534	331,143
Income tax payable	85,906	-
	<u>(729,589)</u>	<u>116,402</u>

16 Geographic information

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

As at	June 30, 2019 \$	March 31, 2019 \$
United States	39,534,876	40,206,904
Canada	26,534,667	26,486,822

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(expressed in Canadian dollars)

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

Three-month period ended June 30	2019	2018
	\$	\$
United States	9,589,016	-
Canada	6,538,231	3,249,139

17 Financial instruments

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

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:

As at	June 30,	March 31,
	2019	2019
	\$	\$
Cash and cash equivalents		
US dollar	9,186,655	8,366,806
Euro	2,036,075	584,449
Accounts receivable		
US dollar	10,583,704	9,875,411
Accounts payable and accrued liabilities		
US dollar	(7,477,703)	(7,033,629)
Euro	(3,033,379)	(2,164,607)
Balance of payable for business combination		
US dollar	(17,166,746)	(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 June 30, 2019. The sensitivity associated with a 10% weakening of a particular currency would be equal and

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(expressed in Canadian dollars)

opposite. This assumes that each currency moves in isolation. The Company does not enter into arrangements to hedge its currency risk exposure.

As at	June 30, 2019 \$	March 31, 2019 \$
10% strengthening of the CA\$:US\$ exchange rate		
Impact on net loss	1,725,000	1,691,000
Impact on other comprehensive loss	<u>(1,237,000)</u>	<u>(962,000)</u>
Impact on net loss and other comprehensive loss	488,000	729,000
10% strengthening of the CA\$:EUR exchange rate		
Impact on net loss and other comprehensive loss	99,000	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 June 30, 2019. 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 period.

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 note 9
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 periods 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.