

# **Medexus Pharmaceuticals Inc.**

Condensed Interim Consolidated  
Financial Statements  
(unaudited)

**For the three- and nine-month periods ended  
December 31, 2019 and 2018**  
(expressed in Canadian dollars)

# Medexus Pharmaceuticals Inc.

## Interim Consolidated Statements of Financial Position (unaudited)

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

(expressed in thousands of Canadian dollars)

As at	Note	December 31, 2019 \$	March 31, 2019 \$ <i>Restated (Note 2)</i>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		22,609	29,205
Accounts receivable		14,980	9,937
Prepaid expenses		2,426	2,011
Inventories		7,779	5,658
		<b>47,794</b>	46,811
<b>Security deposits</b>		<b>682</b>	695
<b>Property and equipment</b>	4	<b>1,624</b>	867
<b>Intangible assets</b>	5	<b>50,998</b>	54,768
<b>Goodwill</b>	5	<b>10,228</b>	10,342
		<b>111,326</b>	113,483
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		21,457	13,512
Interest payable		639	-
Income tax payable		213	632
Lease liabilities		459	-
		<b>22,768</b>	14,144
<b>Convertible debentures – Host</b>	6	<b>25,486</b>	22,526
<b>Convertible debentures – Derivative</b>	6	<b>7,510</b>	15,120
<b>Deferred tax liabilities</b>		<b>7,146</b>	7,253
<b>Balance of payable for business combination</b>	3	<b>18,002</b>	17,021
<b>Lease liabilities</b>		<b>410</b>	-
		<b>81,322</b>	76,064
<b>Shareholders' Equity</b>			
<b>Share capital</b>		<b>59,083</b>	61,944
<b>Contributed surplus</b>		<b>8,477</b>	7,598
<b>Cumulative translation adjustment</b>		<b>104</b>	1,408
<b>Deficit</b>		<b>(37,660)</b>	(33,531)
		<b>30,004</b>	37,419
		<b>111,326</b>	113,483

The accompanying notes are an integral part of these Interim Consolidated Financial Statements

# Medexus Pharmaceuticals Inc.

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

**Three- and nine-month periods ended December 31, 2019 and 2018**

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

Periods ended December 31	Note	Three Months		Nine Months	
		2019 \$	2018 \$	2019 \$	2018 \$
<b>Revenue</b>					
Products		16,204	14,421	48,728	21,119
<b>Cost of sales</b>					
Cost of sales of products		6,060	4,473	17,004	7,545
Amortization of product licences	5	1,174	997	3,247	1,030
		<b>7,234</b>	<b>5,470</b>	<b>20,251</b>	<b>8,575</b>
<b>Gross profit</b>		<b>8,970</b>	<b>8,951</b>	<b>28,477</b>	<b>12,544</b>
Selling and administrative expenses	9	9,369	7,875	30,418	11,459
Research and development expenses		442	-	1,030	-
Transaction-related fees & expenses		229	928	229	4,549
Termination benefits		2,085	-	2,085	-
Depreciation and amortization	4,5	161	125	471	247
Impairment of intangible asset		-	125	-	125
<b>Operating loss</b>		<b>(3,316)</b>	<b>(102)</b>	<b>(5,756)</b>	<b>(3,836)</b>
Financing costs (income)	10	(268)	1,471	(1,091)	2,060
Interest income		(69)	(220)	(256)	(237)
Foreign exchange gain		(347)	(24)	(457)	(21)
<b>Loss before income taxes</b>		<b>(2,632)</b>	<b>(1,329)</b>	<b>(3,952)</b>	<b>(5,637)</b>
<b>Income tax expense</b>		<b>-</b>	<b>-</b>	<b>177</b>	<b>-</b>
<b>Net loss</b>		<b>(2,632)</b>	<b>(1,329)</b>	<b>(4,129)</b>	<b>(5,638)</b>
<b>Other comprehensive income (loss)</b>					
Foreign currency income (loss) on translation of foreign operations		(948)	1,574	(1,304)	1,574
<b>Comprehensive income (loss)</b>		<b>(3,580)</b>	<b>245</b>	<b>(5,433)</b>	<b>(4,064)</b>
<b>Net loss per share</b>					
Basic		(0.19)	(0.10)	(0.28)	(0.68)
Diluted		(0.17)	(0.10)	(0.25)	(0.68)
<b>Weighted average number of common shares outstanding</b>		<b>14,173,724</b>	<b>13,294,273</b>	<b>14,488,857</b>	<b>8,326,442</b>

The accompanying notes are an integral part of these Interim Consolidated Financial Statements

# Medexus Pharmaceuticals Inc.

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

### Nine-month periods ended December 31, 2019 and 2018

(expressed in thousands of Canadian dollars except number of shares)

	Note	Share Capital		Contributed surplus \$	Cumulative translation adjustment \$	Deficit \$	Total shareholders' equity \$
		Common shares	Amount \$				
<b>Balance – March 31, 2018</b>		5,827,666	25,347	4,903	-	(27,212)	3,038
Net loss		-	-	-	-	(5,638)	(5,638)
Other comprehensive income		-	-	-	1,574	-	1,574
Issuance of units for private placement		3,911,760	17,316	3,327	-	-	20,643
Issuance of units for business combinations		4,993,748	21,009	412	-	-	21,421
Issuance of brokers warrants		-	-	205	-	-	205
Transaction fees		-	(1,792)	-	-	-	(1,792)
Equity component of convertible debentures		-	-	17,525	-	-	17,525
Share-based compensation – Stock option plan	8	-	-	117	-	-	117
Share-based compensation – RSU plan		-	-	68	-	-	68
Issuance of shares for exercise of options		13,086	97	(38)	-	-	59
<b>Balance – December 31, 2018</b>		<b>14,746,260</b>	<b>61,977</b>	<b>26,519</b>	<b>1,574</b>	<b>(32,850)</b>	<b>57,220</b>
<b>Balance – March 31, 2019</b> <i>Restated (Note 2)</i>		<b>14,746,260</b>	<b>61,944</b>	<b>7,598</b>	<b>1,408</b>	<b>(33,531)</b>	<b>37,419</b>
Net loss		-	-	-	-	(4,129)	(4,129)
Other comprehensive loss		-	-	-	(1,304)	-	(1,304)
Treasury shares acquired and canceled	7	(779,900)	(3,223)	-	-	-	(3,223)
Share-based compensation – Stock option plan	8	-	-	46	-	-	46
Share-based compensation – RSU plan	8	-	-	1,439	-	-	1,439
Issuance of shares for exercise of options		91,757	362	(606)	-	-	(244)
<b>Balance – December 31, 2019</b>		<b>14,058,117</b>	<b>59,083</b>	<b>8,477</b>	<b>104</b>	<b>(37,660)</b>	<b>30,004</b>

The accompanying notes are an integral part of these Interim Consolidated Financial Statement

# Medexus Pharmaceuticals Inc.

## Interim Consolidated Statements of Cash Flows

(unaudited)

### Three- and nine-month periods ended December 31, 2019 and 2018

(expressed in thousands of Canadian dollars)

Periods ended December 31	Note	Three Months		Nine Months	
		2019 \$	2018* \$	2019 \$	2018* \$
<b>Operating activities</b>					
Net loss		(2,632)	(1,329)	(4,129)	(5,637)
Adjustments for					
Depreciation and amortization	4,5	161	125	471	247
Amortization of product licences	5	1,174	997	3,247	1,030
Share-based compensation expense	9	154	94	1,241	185
Interest expense	10	2,312	1,471	6,519	2,060
Convertible debentures – Unrealized gain on fair value of derivative	10	(2,580)	-	(7,610)	-
Impairment		-	125	-	125
Interest income		(69)	(220)	(256)	(237)
Unrealized foreign exchange gain		(262)	-	(410)	-
Income tax expense		-	-	177	-
		(1,742)	1,263	(750)	(2,227)
Changes in non-cash operating working capital items	13	707	(2,483)	766	797
Income taxes paid		-	-	(588)	-
Cash used by operating activities		(1,035)	(1,220)	(572)	(1,430)
<b>Investing activities</b>					
Interest received		69	220	256	237
Purchases of property and equipment		(13)	-	(65)	(7)
Purchases of intangible assets		-	(757)	(1,091)	(1,090)
Purchase of business acquisitions		-	(23,078)	-	(23,078)
Cash used (provided) by investing activities		56	(23,615)	(900)	(23,938)
<b>Financing activities</b>					
Interest paid		(14)	(437)	(1,310)	(769)
Treasury shares acquired and cancelled		(1,451)	-	(3,224)	-
Proceeds from issuance of shares		-	19,950	-	20,009
Proceeds from convertible debenture		-	42,000	-	42,000
Financing fees		-	(3,841)	-	(3,841)
Repayment of long-term debt		-	(6,929)	-	(6,929)
Repayment of lease liabilities		(115)	-	(299)	-
Cash used (provided) by financing activities		(1,580)	50,743	(4,833)	50,470
<b>Net change in cash and cash equivalents during the period</b>		<b>(2,559)</b>	<b>25,908</b>	<b>(6,305)</b>	<b>25,102</b>
Impact of foreign exchange on cash and cash equivalents		(209)	178	(291)	178
<b>Cash and cash equivalents – Beginning of period</b>		<b>25,377</b>	<b>2,802</b>	<b>29,205</b>	<b>3,608</b>
<b>Cash and cash equivalents – End of period</b>		<b>22,609</b>	<b>28,888</b>	<b>22,609</b>	<b>28,888</b>

\*see note 2 for details regarding a restatement due to changes in accounting policy.

The accompanying notes are an integral part of these Interim Consolidated Financial Statements.

# **Medexus Pharmaceuticals Inc.**

## **Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

### **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 unaudited condensed interim consolidated financial statements as at for the three months and nine months ended December, 2019 and 2018 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 unaudited condensed interim consolidated financial statements as were followed in the preparation of the most recent annual audited consolidated financial statements. Accordingly, these unaudited 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 unaudited condensed consolidated interim financial statements are presented in Canadian dollars which is the functional currency of the Company. The Company has an American 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 February 18, 2020.

#### **Seasonality of interim operations**

The operations of the Company can be seasonal based on the products offered by the Company, 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 thousands of Canadian dollars, except per share amounts and number of shares)

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 December 31, 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 does not carry on active business other than the ownership of 100% of the outstanding shares of Medac Pharma, Inc.

### **Termination benefits**

The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees in accordance with a detailed formal plan without possibility for withdrawal or providing benefits as a result of an offer made to encourage voluntary termination.

# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

### Changes to comparative balance

On October 16, 2018, the Company acquired Medac Pharma Inc. and Medexus Inc. At the time of issuing our March 31, 2019 consolidated financial statements, the Company had not finalized its review of the books and records of Medac Pharma Inc. and Medexus Inc. As a consequence, there were some changes between the final and disclosed purchase price allocation. The following table shows the adjustments recognized for each line item impacted by the change.

### Interim Consolidated Statements of Financial Position

As at March 31, 2019	As previously reported \$	Adjustment \$	Final amount \$
<b>Assets</b>			
Intangible assets	55,796	(1,028)	54,768
Goodwill	9,336	1,006	10,342
<b>Liabilities</b>			
Deferred tax liabilities	7,478	(225)	7,253
<b>Shareholders' Equity</b>			
Deficit	(33,734)	203	(33,531)

### Accounting standards and interpretations issued and their 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 have been presented as financing cash outflows.



# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

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

<b>As at April 1, 2019</b>	<b>As previously reported</b>	<b>IFRS 16 effects</b>	<b>As reported under IFRS 16</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Non-current assets			
Property and equipment	867	1,080	1,947
Current liabilities			
Lease liabilities	-	397	397
Non-current liabilities			
Lease liabilities	-	683	683

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%. Principal payments on the lease liabilities totaled \$115 for the three-month period, and \$299 for the nine-month period, ended December 31, 2019. Interest payments on the lease liabilities totaled \$14 for the three-month period, and \$46 for the nine-month period, ended December 31, 2019.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at April 1, 2019, as short-term leases;
- Account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy effective April 1, 2019:

### **Leases**

A contract is a lease (or may contain a lease) if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability. Payments received for the sublease of right-of-use assets are recognized as sublease revenue.

### **IFRIC 23, *Uncertainty over Income Tax Treatments***

In June 2017, the IFRS Interpretations Committee issued IFRIC 23 which clarifies how the recognition and measurement requirements of IAS 12, *Income Taxes*, are applied where there is uncertainty over income tax

# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

treatments. The new standard is effective for annual periods beginning on or after January 1, 2019. The adoption of this accounting interpretation did not have any impact.

### Changes in accounting policies

#### IAS 7, *Statement of Cash Flows*

IAS 7 prescribes that interest paid and interest received are to be classified as operating cash flows, or alternatively, interest paid and interest received may be classified as financing cash flows and investing cash flows, respectively. The Company has concluded that classifying interest paid and interest received as financing cash flows and investing cash flows, respectively, is more aligned with the operations of the business as they reflect the cost of obtaining financial resources or returns on investment.

Changes to the comparative amounts in our condensed interim consolidated statements of cash flows are as follows:

	As previously reported \$	Adjustment \$	Final amount \$
<b>Three-month period ended December 31, 2018</b>			
Cash provided (used) by operating activities	(1,436)	217	(1,220)
Cash provided (used) by investing activities	(23,836)	220	(23,615)
Cash provided (used) by financing activities	51,179	(437)	50,743
<b>Nine-month period ended December 31, 2018</b>			
Cash provided (used) by operating activities	(1,962)	532	(1,430)
Cash provided (used) by investing activities	(24,176)	237	(23,938)
Cash provided (used) by financing activities	51,239	(769)	50,470

### 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 thousands of Canadian dollars, except per share amounts and number of shares)

### 3 Business combinations

#### Medac Pharma Inc.

On October 16, 2018, the Company acquired Medac Pharma Inc., a privately held specialty pharmaceutical company focusing primarily in the area of rheumatology in the United States. As at March 31, 2019, the purchase price allocation had not been finalized.

During the three-month period ended December 31, 2019 preliminary acquisition-date values assigned for intangible assets, goodwill and deferred tax liabilities were finalized as discussed in Note 2; as required by IFRS-IASB, comparative amounts have been adjusted so as to reflect those changes effective the acquisition date.

<b>Assets</b>	<b>As previously reported</b>	<b>Adjustment</b>	<b>Final amount</b>
	\$	\$	\$
<b>Current assets</b>			
Cash and cash equivalents	749		749
Accounts receivable	9,569		9,569
Prepaid expenses	2,493		2,493
Inventories	2,142		2,142
	<hr/>		<hr/>
	14,953		14,953
<b>Property and equipment</b>	322		322
<b>Security and escrow deposits</b>	673		673
<b>Intangible assets</b>	35,298	569	35,867
	<hr/>		<hr/>
<b>Total identifiable assets acquired</b>	51,246		51,815
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9,819		9,819
<b>Deferred tax liabilities</b>	3,944	252	4,196
	<hr/>		<hr/>
<b>Total liabilities assumed</b>	13,763		14,015
<b>Net identifiable assets acquired</b>	37,483		37,800
<b>Goodwill<sup>1</sup></b>	3,944	(317)	3,627
	<hr/>		<hr/>
<b>Net assets acquired</b>	41,427		41,427
<b>Acquisition effected by way of:</b>			
Cash consideration	23,078		23,078
Equity consideration	2,178		2,178
Balance of payable for business combination <sup>2</sup>	16,171		16,171
	<hr/>		<hr/>
	41,427		41,427

<sup>1</sup>Goodwill is not deductible for tax purposes.

<sup>2</sup>Includes a contingent cash payment of US\$5 million and annual payments in an amount equal to 7.5% of the aggregate consolidated EBITDA of the Company until such time as an aggregate of US\$30 million is reached.

# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

### Medexus Inc.

On October 16, 2018, the Company completed the acquisition Medexus Inc., a Canadian pharmaceutical company with partnerships in international markets. As at March 31, 2019, the purchase price allocation had not been finalized.

During the three-month period ended December 31, 2019 preliminary acquisition-date values assigned for intangible assets, goodwill and deferred tax liabilities were finalized as discussed in Note 2; as required by IFRS-IASB, comparative amounts have been adjusted so as to reflect those changes effective the acquisition date.

<b>Assets</b>	<b>As previously reported \$</b>	<b>Adjustment \$</b>	<b>Final balance \$</b>
<b>Current assets</b>			
Accounts receivable	865		865
Prepaid expenses	31		31
Inventories	1,152		1,152
	<u>2,048</u>		<u>2,048</u>
<b>Property and equipment</b>	534		534
<b>Intangible assets</b>	18,200	(1,800)	16,400
	<u>20,782</u>		<u>18,982</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank overdraft	217		217
Accounts payable and accrued liabilities	1,488		1,488
Assumed debt	1,429		1,429
	<u>3,134</u>		<u>3,134</u>
<b>Deferred tax liabilities</b>	3,815	(477)	3,338
	<u>6,949</u>		<u>6,472</u>
<b>Total liabilities assumed</b>			
	<u>13,833</u>		<u>12,510</u>
<b>Net identifiable assets acquired</b>			
	<u>5,263</u>	1,323	<u>6,586</u>
<b>Goodwill<sup>1</sup></b>			
<b>Net assets acquired</b>	<u>19,096</u>		<u>19,096</u>
Acquisition effected by way of:			
Equity consideration	<u>19,096</u>		<u>19,096</u>
	<u>19,096</u>		<u>19,096</u>

<sup>1</sup>Goodwill is not deductible for tax purposes.

# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

### 4 Property and equipment

	Note	Office furniture & Computer equipment \$	Right-of-use lease assets \$	Total \$
Net book value at March 31, 2019				
As previously reported		867	-	867
IFRS 16, <i>Leases</i> transitional amount	2	-	1,080	1,080
As adjusted		867	1,080	1,947
Additions		64	104	168
Depreciation		(123)	(346)	(469)
Currency translation adjustment		(7)	(15)	(22)
<b>Net book value at December 31, 2019</b>		<b>801</b>	<b>823</b>	<b>1,624</b>
<b>As at December 31, 2019</b>				
Cost		1,137	1,163	2,300
Accumulated depreciation		(336)	(340)	(676)
<b>Net book value</b>		<b>801</b>	<b>823</b>	<b>1,624</b>
<b>As at March 31, 2019</b>				
Cost		1,083	-	1,083
Accumulated depreciation		(216)	-	(216)
<b>Net book value</b>		<b>867</b>	<b>-</b>	<b>867</b>

### 5 Intangible assets and Goodwill

	Intangible assets subject to amortization			Goodwill
	Licences \$	Software \$	Total \$	\$
Net book value at March 31, 2019	54,758	10	54,768	10,342
Additions	332	-	332	-
Amortization	(3,247)	(2)	(3,249)	-
Currency translation adjustment	(853)	-	(853)	(114)
<b>Net book value at December 31, 2019</b>	<b>50,990</b>	<b>8</b>	<b>50,998</b>	<b>10,228</b>
<b>As at December 31, 2019</b>				
Cost	56,960	49	57,009	10,228
Accumulated amortization	(5,970)	(41)	(6,011)	-
<b>Net book value</b>	<b>50,990</b>	<b>8</b>	<b>50,998</b>	<b>10,228</b>
<b>As at March 31, 2019</b>				
Cost	57,419	49	57,468	10,342
Accumulated amortization	(2,661)	(39)	(2,700)	-
<b>Net book value</b>	<b>54,758</b>	<b>10</b>	<b>54,758</b>	<b>10,342</b>

# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

### 6 Convertible debentures

As at	December 31, 2019 \$	March 31, 2019 \$
Convertible debentures issued in October 2018	27,039	24,255
Embedded derivative on Convertible debentures	7,510	15,120
Deferred financing transaction costs	(1,553)	(1,729)
	<u>32,996</u>	<u>37,646</u>
Current	-	-
Non-current	<u>32,996</u>	<u>37,646</u>
	<u>32,996</u>	<u>37,646</u>

#### Convertible debentures issued in October 2018

The Convertible debentures will mature on October 16, 2023, and debentures not previously converted by the holder 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 December 31, 2019, the fair value of the derivative component was determined to be \$7,510 and the unrealized gain was included in financing costs (note 10).

### 7 Share Capital

On May 14, 2019, the Company received approval from the TSXV to implement a normal course issuer bid (the "NCIB"), under which the Company may purchase for cancellation up to 1,005,333 common shares, at market prices, through the facilities of the TSXV, or by other means as may be permitted by the TSXV. The NCIB commenced on May 16, 2019, and will terminate on May 15, 2020 or on such earlier date upon which the Company has purchased the maximum number of Shares under the NCIB.

The Company purchased and canceled 361,900 common shares in the market for consideration of \$1,450 during the three-month period ended December 31, 2019, and 779,900 common shares in the market for consideration of \$3,223 during the nine-month period ended December 31, 2019.

# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

### 8 Share-based compensation

#### Stock options

	Three Months		Nine Months	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
<b>Periods ended December 31, 2019</b>				
Outstanding, beginning of period	455,685	5.43	465,685	5.41
Forfeited & Expired	(81,502)	5.47	(91,502)	5.36
Outstanding, end of period	<b>374,183</b>	<b>5.42</b>	<b>374,183</b>	<b>5.42</b>
Exercisable, end of period	<b>342,684</b>	<b>5.50</b>	<b>342,684</b>	<b>5.50</b>

#### Restricted stock units (RSUs)

	Three Months		Nine Months	
	Number of units	Weighted average exercise price \$	Number of units	Weighted average exercise price \$
<b>Periods ended December 31, 2019</b>				
Outstanding, beginning and end of period	1,867,555	0.01	1,877,555	0.01
Granted	8,602	0.01	8,602	0.01
Exercised	(151,251)	0.01	(151,251)	0.01
Forfeited & Expired	(428,000)	0.01	(438,000)	0.01
Outstanding, end of period	<b>1,296,906</b>	<b>0.01</b>	<b>1,296,906</b>	<b>0.01</b>
Exercisable, end of period	<b>208,638</b>	<b>0.01</b>	<b>208,638</b>	<b>0.01</b>

Share-based compensation expense with respect to these options and RSUs amounted to \$398 (2018 – \$94) For the three-month period, and \$1,485 (2018 - \$185) for the nine-month period, ended December 31, 2019. These costs are included in selling and administrative expenses in the condensed interim consolidated statement of income (loss) and comprehensive income (loss) (note 9).

# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

### 9 Selling and administrative expenses

Periods ended December 31	Three Months		Nine Months	
	2019 \$	2018 \$	2019 \$	2018 \$
Share-based compensation expense	398	94	1,485	185
Sales and marketing expense	5,193	4,729	17,959	7,144
Business development and regulatory affairs	1,195	698	3,591	1,116
General administrative	2,583	2,354	7,383	3,014
	<b>9,369</b>	<b>7,875</b>	<b>30,418</b>	<b>11,459</b>

### 10 Financing costs (income)

Periods ended December 31	Three Months		Nine Months	
	2019 \$	2018 \$	2019 \$	2018 \$
Interest on convertible debentures	635	676	1,899	1,011
Interest accretion on convertible debentures, net of amort. of deferred financing costs	1,064	795	2,961	1,050
Interest accretion on balance of payable for business combination	599	-	1,613	-
Interest on lease liabilities	14	-	46	-
<b>Interest expense</b>	<b>2,312</b>	<b>1,471</b>	<b>6,519</b>	<b>2,060</b>
Convertible debentures – Unrealized gain on fair value of derivative	(2,580)	-	(7,610)	-
	<b>(268)</b>	<b>1,471</b>	<b>(1,091)</b>	<b>2,060</b>

### 11 Employee benefit expense

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

Periods ended December 31	Three Months		Nine Months	
	2019 \$	2018 \$	2019 \$	2018 \$
Salaries and benefits	3,338	2,743	9,855	3,849
Share-based compensation	26	6	107	34
	<b>3,364</b>	<b>2,749</b>	<b>9,962</b>	<b>3,883</b>



# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

- 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.

Periods ended December 31	Three Months		Nine Months	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Key management compensation</b>				
Salaries and benefits	779	1,288	2,833	2,056
Share-based compensation	371	88	1,378	151
	<b>1,150</b>	<b>1,376</b>	<b>4,211</b>	<b>2,207</b>

Key management compensation is included in selling and administrative expenses.

### 12 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 member of the key management personnel of the Company. Warehouse fees paid totaled \$90 for the three-month period, and \$261 for the nine-month period, ended December 31, 2019.
- b) Royalties paid on an exclusive licensing agreement with a significant shareholder of the Company totaled \$168 for the three-month period, and \$384 for the nine-month period, ended December 31, 2019.
- c) Interest on convertible debentures which are owned or controlled, directly and indirectly, by two directors of the Company totaled \$93 for the three-month period, and \$277 for the nine-month period, ended December 31, 2019.

### 13 Interim consolidated statements of cash flows

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

Periods ended December 31	Three Months		Nine Months	
	2019	2018	2019	2018
	\$	\$	\$	\$
Decrease (increase) in				
Accounts receivable	(1,840)	(2,952)	(5,395)	(3,403)
Prepaid expenses	626	777	(472)	466
Inventories	(2,312)	590	(2,174)	854
Increase (decrease) in				
Accounts payable and accrued liabilities	4,233	(898)	8,807	2,880
	<b>707</b>	<b>(2,483)</b>	<b>766</b>	<b>797</b>

# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

### 14 Geographic information

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

<b>As at</b>	<b>December 31, 2019 \$</b>	<b>March 31, 2019 \$</b>
United States	<b>38,197</b>	40,207
Canada	<b>25,222</b>	26,487

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

<b>Periods ended December 31</b>	<b>Three Months</b>		<b>Nine Months</b>	
	<b>2019 \$</b>	<b>2018 \$</b>	<b>2019 \$</b>	<b>2018 \$</b>
United States	<b>9,200</b>	9,281	<b>28,225</b>	9,281
Canada	<b>7,004</b>	5,140	<b>20,503</b>	11,838

### 15 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.

# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

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

<b>As at</b>	<b>December 31, 2019</b>	March 31, 2019
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents		
US dollar	<b>11,154</b>	8,367
Euro	<b>1,010</b>	584
Accounts receivable		
US dollar	<b>12,293</b>	9,875
Accounts payable and accrued liabilities		
US dollar	<b>(14,221)</b>	(7,034)
Euro	<b>(1,747)</b>	(2,165)
Balance of payable for business combination		
US dollar	<b>(18,002)</b>	(17,021)

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 December 31, 2019. 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.

<b>As at</b>	<b>December 31, 2019</b>	March 31, 2019
	<b>\$</b>	<b>\$</b>
10% strengthening of the CA\$:US\$ exchange rate		
Impact on net income (loss)	<b>1,838</b>	1,691
Impact on other comprehensive income (loss)	<b>(960)</b>	(962)
Impact on comprehensive income (loss)	<b>878</b>	729
10% strengthening of the CA\$:EUR exchange rate		
Impact on comprehensive income (loss)	<b>74</b>	158

### 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 December 31, 2019. A change in interest rates on borrowings of 1% higher or lower would not have a significant impact on income (loss) and comprehensive income (loss) for the period.

# Medexus Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(expressed in thousands of Canadian dollars, except per share amounts and number of shares)

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 6
Balance of payable for business combination	As described in note 3

### 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.