

**FORM 51-102F4
BUSINESS ACQUISITION REPORT**

Item 1 Identity of Company

1.1 Name and Address of Company

Medexus Pharmaceuticals Inc. (formerly Pediapharm Inc.) (the "**Company**")
225 - 1 Place du Commerce
Verdun, Quebec H3E 1A2

1.2 Executive Officer

Roland Boivin
Chief Financial Officer
Tel.: (514) 762-2626

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On October 16, 2018, the Company completed the acquisitions ("**Acquisitions**") of all the issued and outstanding shares of Medexus Inc. ("**Medexus**") and medac Pharma, Inc. ("**Medac Pharma**"). The Company announced the Acquisitions, along with the concurrent subscription receipt financing, on September 7, 2018.

Medexus Inc.

The acquisition of the issued and outstanding shares of Medexus was completed by way of an amalgamation whereby a wholly-owned subsidiary of the Company, incorporated solely for the purposes of acquiring Medexus, amalgamated with Medexus and Medexus Holdings Inc., a company controlled by the founder of Medexus, Ken d'Entremont, and established solely for the purpose of holding Medexus shares (the "**Medexus Acquisition**"). The Medexus Acquisition was undertaken pursuant to the terms of an arm's length amalgamation agreement dated September 6, 2018.

Medexus is a Canadian specialty pharmaceutical company focused on the licensing, registration, marketing, sales and distribution of innovative pharmaceutical products in Canada, with strategic partnerships in key international markets. Medexus focuses on key growth areas with an emphasis on rheumatology as well as women's health and dermatology. The healthcare solutions offered by Medexus include: Metoject®, Oralvisc®, Tricovel®, Multi-Gyn®, Calcia®, IronOne®, Monoderma A-C-E-M™, Allergoff® and Triamcinolone Hexacetonide.

medac Pharma, Inc.

The acquisition of the issued and outstanding shares of Medac Pharma was completed by way of an arm's length stock purchase agreement dated September 6, 2018 (the "**Medac Pharma Agreement**"), pursuant to which a wholly-owned U.S. subsidiary of the Company, incorporated solely for the purposes of acquiring the shares of Medac Pharma, acquired all of Medac Pharma's shares from medac Gesellschaft für klinische Spezialpräparate mbH ("**medac GmbH**"), a global pharmaceutical company based in Germany (the "**Medac Pharma Acquisition**").

Medac Pharma is a specialty pharmaceutical company focusing primarily in the area of rheumatology in the United States through implemented commercial infrastructure. The leading product of Medac Pharma is Rasuvo, an enhanced delivery of methotrexate (auto-pen) to treat rheumatoid arthritis.

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, which 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. In addition, an existing supply agreement between medac GmbH and Medexus relating to the licensing of Metoject® was extended, on its existing financial terms, such that it expires 12 years from the date of the completion of the Medac Pharma Acquisition.

More information regarding the Acquisitions can be found in the Company's material change reports dated September 12, 2018 and October 22, 2018, and related news releases, and the definitive agreements relating to the Acquisitions, all of which have been filed on the Company's SEDAR profile at www.sedar.com.

2.2 Date of Acquisition

The Acquisitions were completed on October 16, 2018.

2.3 Consideration

The total consideration paid by the Company for the Medexus Acquisition was approximately CDN\$23 million, which was satisfied through the issuance of 67,646,009 common shares of the Company (the "**Common Shares**") to former holders of Medexus shares, at a deemed issue price of CDN\$0.34 per Common Share.

The total consideration payable by the Company for the Medac Pharma Acquisition is up to U.S. \$50 million payable as follows:

- (a) a cash payment of U.S. \$13.1 million (the "**Closing Cash Payment**") paid on closing of the Medac Pharma Acquisition;
- (b) 7,260,235 units of the Company (the "**Consideration Units**") issued on closing with a value of approximately U.S. \$1.9 million with a deemed price of CDN\$0.34 per Consideration Unit, with each Consideration Unit consisting of one Common Shares and one half of one Common Share purchase warrant (each such full warrant being exercisable into one Common Share for a period of five years at an exercise price of CDN\$0.63 per Common Share);
- (c) a contingent cash payment of U.S. \$5 million, payable upon the earlier of 180 days following the date of approval by the Food and Drug Administration agency of the United States Department of Health and Human Services for a certain new product to be supplied to the Company by medac GmbH for sale in the United States, or 30 days following the date, provided that such FDA approval has been obtained, that medac GmbH has manufactured and delivered to the Company sufficient quantities of such products to meet the forecasted launch demand for such product in the United States; and

- (d) annual payments in an amount equal to 7.5% of the aggregate consolidated EBITDA (as defined in the Medac Pharma Agreement) of the Company (the "**Trailer Payments**"), subject to certain agreed-upon adjustments, until such time as an aggregate of U.S. \$30 million in Trailer Payments have been made.

More information regarding the consideration for the Acquisitions can be found in the Company's material change report dated September 12, 2018, and related news release.

2.4 Effect on Financial Position

Following the completion of the Acquisitions, other than an expansion resulting from the continuation of the businesses previously carried on by Medexus and Medac Pharma, the Company has no plans for material changes in the business affairs of the Company that may have a significant effect on the results of the operations or financial position of the Company, provided however that in the ordinary course of its business, the Company is continuously seeking and evaluating opportunities to further its business objectives.

In addition, following the Acquisitions, the Company announced on December 17, 2018 certain management changes, including the promotion of Ken d'Entremont, the founder, President, Chief Executive Officer and director of Medexus as Chief Executive Officer of the Company. Proceeds raised through the subscription receipt financing completed in connection with the Acquisitions, which were not used to partially fund the Closing Cash Payment, are expected to be used for the ongoing operations and strategic initiatives of the Company.

2.5 Prior Valuations

No valuation opinion was obtained within the last 12 months by the Company required by securities legislation or a Canadian exchange or market to support the consideration paid by the Corporation in respect of the Acquisitions.

2.6 Parties to Transaction

The Acquisitions were not with any "informed person", "associate" or "affiliate" of the Company, as those terms are defined under applicable securities legislation.

2.7 Date of Report

December 31, 2018.

Item 3 Financial Statements

The financial statements and other information required by Part 8 of National Instrument 51-102 *Continuous Disclosure Obligations* are attached hereto and form a part hereof:

- (a) Audited consolidated financial statements of Medexus for the financial year ended December 31, 2017, together with the notes thereto and the auditors' report thereon, and the unaudited consolidated financial statements for the year ended December 31, 2016, attached hereto as Schedule "A";

- (b) Audited consolidated financial statements of Medac Pharma for the financial year ended March 31, 2018 and 2017, together with the notes thereto and the auditors' report thereon, attached hereto as Schedule "B";
- (c) Unaudited interim financial statements of Medexus for the three and nine month periods ended September 30, 2018 and 2017, together with the notes thereto, attached hereto as Schedule "C"; and
- (d) Unaudited interim financial statements of Medac Pharma for the three and six month periods ended September 30, 2018 and 2017, together with the notes thereto, attached hereto as Schedule "D".

Forward Looking Statements

Certain information in this business acquisition report may be considered "forward-looking information" within the meaning of applicable securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the Company's expected amount and timing of the remaining payment of consideration for the Medac Pharma Acquisition, the Company's expected use for the proceeds of the subscription receipt financing, the implied expected benefits of the Acquisitions and Medac Supply Agreement, and expected future business operation and results. All statements, other than of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements are generally identifiable by use of the words "may", "will", "should", "continue", "expect", "anticipate", "estimate", "believe", "intend", "plan" or "project" or the negative of these words or other variations on these words or comparable terminology. Forward-looking statements are based on management's current assumptions regarding the combined company and are subject to a number of risks and uncertainties, many of which are beyond the Company's ability to control or predict, that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among other things, risks relating to the combination of the business of the Company, Medexus and Medac Pharma including, without limitation, that the business, operational and/or financial performance of the combined company as a result of the Acquisitions may be materially different from that currently anticipated. In particular, the synergies and benefits anticipated in respect of the Acquisitions are based on the business, operational and financial position of each of the Company, Medexus and Medac Pharma as of the effective date of the Acquisitions which are subject to a number of risks and uncertainties. Although the Company believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because Company can give no assurance that they will prove to be correct. Since forward-looking information addresses future events and conditions, by its very nature they involve inherent risks and uncertainties. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits that Company will derive therefrom. The Company has included the above summary of assumptions and risks related to forward-looking information provided in this business acquisition report in order to provide securityholders with a more complete perspective on the Company's future operations and such information may not be appropriate for other purposes. Readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect the Company's operations or financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com). The forward-looking statements included in this business acquisition report are made as of the date of this business acquisition report and the

Company does not undertake an obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless required by applicable securities legislation.

SCHEDULE "A"

Audited financial statements of Medexus for the year ended December 31, 2017 and unaudited financial statements for year ended December 31, 2016

Medexus Inc.
Financial Statements
December 31, 2017

Medexus Inc.
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For the year ended December 31, 2017

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Independent Auditors' Report

To the Shareholders of Medexus Inc.:

We have audited the accompanying financial statements of Medexus Inc. which comprise the balance sheet as at December 31, 2017, and the statements of earnings, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Medexus Inc. as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Mississauga, Ontario

March 1, 2018

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants

Medexus Inc.
Balance Sheet
As at December 31, 2017

	2017	2016
Assets		
Current		
Cash	5,686	3,922
Accounts receivable	497,269	439,196
Government sales tax receivable	-	9,884
Inventory	844,397	1,011,834
Prepaid expenses and deposits	648,817	507,885
	1,996,169	1,972,721
Property and equipment (Note 3)	418,996	467,626
Intangible assets (Note 4)	874,996	885,736
Future income taxes	294,518	360,697
Advances to corporate shareholder (Note 5)	799,167	744,239
	4,383,846	4,431,019
Liabilities		
Current		
Bank indebtedness (Note 6)	521,288	496,704
Accounts payable and accruals	554,367	732,305
Promissory note payable (Note 5)	190,000	190,000
Current portion of loans payable (Note 7)	258,450	152,019
	1,524,105	1,571,028
Loans payable (Note 7)	124,919	383,363
	1,649,024	1,954,391
Shareholders' Equity		
Share capital (Note 8)	4,521,077	4,521,077
Deficit	(1,786,255)	(2,044,449)
	2,734,822	2,476,628
	4,383,846	4,431,019

Approved on behalf of the Board

The accompanying notes are an integral part of these financial statements

Medexus Inc.
Statement of Earnings

For the year ended December 31, 2017

	2017	2016
Revenue		
Gross sales	4,854,687	4,180,451
Discounts, returns and adjustments	(458,434)	(321,100)
	4,396,253	3,859,351
Cost of sales		
Purchases	1,748,370	1,618,406
Freight in	109,002	86,388
Duty, brokerage and distributor commissions	5,564	10,158
	1,862,936	1,714,952
Gross profit	2,533,317	2,144,399
Operating expenses		
Salaries and benefits	891,890	811,792
Advertising and promotion	654,655	606,054
Travel	110,015	123,064
Interest (Note 5)	78,438	76,827
Licenses, subscriptions and dues	60,314	34,075
Supplies	58,689	48,321
Meals and entertainment	51,324	44,429
Professional fees	44,412	57,536
Office and general	40,548	43,866
Utilities and telecommunications	32,068	33,348
Insurance	13,613	12,785
Repairs and maintenance	9,196	5,778
Property taxes	8,028	10,244
Automotive	3,490	6,370
Amortization - intangible assets	95,180	29,600
Amortization - property and equipment	57,082	64,222
	2,208,942	2,008,311
Earnings before income taxes	324,375	136,088
Provision for future income taxes (Note 9)	66,179	48,423
Net earnings	258,196	87,665

The accompanying notes are an integral part of these financial statements

Medexus Inc.
Statement of Changes in Equity
For the year ended December 31, 2017

	2017	2016
Share capital		
Balance, beginning of year	4,521,077	4,016,587
Issuance of common shares	-	557,490
Redemption of common shares	-	(53,000)
Balance, end of year	4,521,077	4,521,077
Retained earnings (deficit)		
Balance, beginning of year	(2,044,451)	(2,110,864)
Net income for the year	258,196	87,665
Premium on redemption of common shares	-	(21,250)
Balance, end of year	(1,786,255)	(2,044,449)
Total equity	2,734,822	2,476,628

The accompanying notes are an integral part of these financial statements

Medexus Inc.
Statement of Cash Flows
For the year ended December 31, 2017

	2017	2016
Cash provided by (used in) the following activities		
Operating activities		
Cash received from customers	4,348,064	3,708,044
Cash paid to suppliers	(2,994,292)	(3,198,844)
Cash paid to employees	(891,890)	(811,792)
Interest paid	(78,438)	(76,827)
	383,444	(379,419)
Financing activities		
Proceeds from operating loan	24,584	214,986
Proceeds from loans payable	-	100,000
Repayment of loans payable	(258,444)	(131,115)
Issue of common shares	-	557,490
Premium on redemption of common shares	-	(21,250)
Redemption of common shares	-	(53,000)
	(233,860)	667,111
Investing activities		
Purchases of property and equipment	(8,452)	(69,770)
Purchase of intangible assets	(84,440)	(159,912)
Advances to corporate shareholder	(54,928)	(56,921)
	(147,820)	(286,603)
Increase in cash	1,764	1,089
Cash, beginning of year	3,922	2,833
Cash, end of year	5,686	3,922
Supplementary cash flow information		
Transfer of prepaid expenses to Intangible assets	53,380	608,228

The accompanying notes are an integral part of these financial statements

1. General operations

Medexus Inc. (the "Company") was incorporated under the laws of the Province of Ontario on July 15, 1999. The Company distributes and sells various pharmaceutical products within Canada.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian accounting standards for private enterprises, using the following significant accounting policies:

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, there is no uncertainty as to customer acceptance, the price to the buyer is fixed or determinable and collection is reasonably assured.

Revenues from sale of goods are reported on a net basis, calculated as gross billings less applicable discounts, rebates or any sales returns during the year.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. During the year, inventory of \$1,701,884 (2016 - \$1,594,079) was expensed. Inventory is comprised of finished goods only.

Property and equipment

Property and equipment are initially recorded at cost. Amortization is provided using the following methods at rates intended to amortize the cost of assets over their estimated useful lives:

	Method	Rate
Buildings	declining balance	4 %
Machinery and equipment	declining balance	20 %
Furniture and fixtures	declining balance	20 %
Vehicles	declining balance	30 %
Computer equipment and software	declining balance	55 %
Dies and film plates	declining balance	20 %

Intangible assets

Specified intangible assets are recognized and reported apart from goodwill.

Intangible assets recognized separately from goodwill and subject to amortization are recorded at cost and amortized using the straight-line method at rates intended to amortize the cost of the intangible assets over their estimated useful lives. Intangible assets subject to amortization are tested for impairment as disclosed in the long-lived assets accounting policy note (Note 4).

	Method	Rate
Product licenses	straight-line	5 and 7 years
Website	straight-line	5 years
Production costs	straight-line	3 years

2. Significant accounting policies *(Continued from previous page)*

Impairment of long-lived assets

Long-lived assets consist of property, equipment and intangible assets with finite useful lives. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. The carrying amount of a group of long-lived assets is not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows from their use and disposal. If the carrying amount is not recoverable, impairment is then measured as the amount by which the assets' carrying amount exceeds its fair value. Fair value is measured using discounted future cash flows. Any impairment is included in earnings for the year.

Foreign currency translation

These financial statements have been presented in Canadian dollars, the principal currency of the Company's operations.

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Gains and losses on translation or settlement are included in the determination of net earnings for the current period.

Financial instruments

The Company recognizes its financial instruments when the Company becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with CPA Canada Handbook Section 3840 Related Party Transactions (Note 5).

At initial recognition, the Company may irrevocably elect to subsequently measure any financial instrument at fair value. The Company has not made such an election during the year.

The Company subsequently measures investments in equity instruments quoted in an active market and all derivative instruments, except those designated in a qualifying hedging relationship or that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, at fair value. Investments in equity instruments not quoted in an active market and derivatives that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, are subsequently measured at cost less impairment. With the exception of financial liabilities indexed to a measure of the Company's performance or value of its equity and those instruments designated at fair value, all other financial assets and liabilities are subsequently measured at amortized cost.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in net loss. Conversely, transaction costs and financing fees are added to the carrying amount for those financial instruments subsequently measured at amortized cost or cost.

Financial assets measured at amortized cost include cash and accounts receivable. Financial liabilities measured at amortized cost include bank indebtedness, accounts payable and accruals, promissory note payable and loans payable.

2. Significant accounting policies (Continued from previous page)

Financial asset impairment

The Company assesses impairment of all its financial assets measured at cost or amortized cost. The Company groups assets for impairment testing when determining whether objective evidence of impairment exists. When there is an indication of impairment, the Company determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, the Company reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current year earnings.

The Company reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in net earnings (loss) in the year the reversal occurs.

Income taxes

The Company accounts for income taxes using the future income taxes method. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful life of property, equipment and intangible assets. Accounts payable and accruals are assessed for completeness.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the year in which they become known.

3. Property and equipment

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Buildings	359,817	60,221	299,596	312,079
Machinery and equipment	91,261	76,765	14,496	15,388
Furniture and fixtures	77,145	65,653	11,492	14,446
Vehicles	159,479	112,788	46,691	66,702
Computer software	9,706	8,881	825	825
Computer equipment	110,749	101,514	9,235	19,201
Dies and film plates	66,036	29,375	36,661	38,985
	874,193	455,197	418,996	467,626

Medexus Inc.
Notes to the Financial Statements
For the year ended December 31, 2017

4. Intangible assets

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>2017 Net book value</i>	<i>2016 Net book value</i>
Product licences	917,619	203,078	714,541	723,724
Website	167,287	60,785	106,502	102,064
Production costs	59,948	5,995	53,953	59,948
			874,996	885,736

5. Related party transactions

Amounts due from corporate shareholder are unsecured, non-interest bearing with no fixed terms of repayment.

The promissory note payable which is due to a shareholder is secured by a second ranking general security agreement covering all assets of the Company, bears interest at 12% per annum and is due on December 31, 2018. The shareholder has requested repayments be repaid on a monthly basis during the year when cash available to the Company exceeds \$200,000. During the year, interest expense of \$22,800 (2016 - \$22,800) was paid on this note.

6. Bank Indebtedness

The Company has an authorized demand bank operating facility of \$650,000. The operating line of credit bears interest at prime plus 2% per annum and is secured by a general security agreement representing a first charge on all the Company's assets, an assignment of fire insurance and continuing collateral mortgage on the building. The Company was in compliance with all significant covenants contained in its banking agreement as at December 31, 2017.

Medexus Inc.
Notes to the Financial Statements
For the year ended December 31, 2017

7. Loans payable

	2017	2016
Mortgage payable in monthly principal instalments of \$833, plus interest of prime plus 1%, due February 2018, secured consistent with the facility described in Note 6	151,666	161,666
Term loan payable in monthly principal instalments of \$2,500, plus interest of BDC's floating base rate plus 2.25% per year, due July 2018, secured by a personal guarantee of a shareholder	17,500	47,500
Term loan payable in monthly principal instalments of \$1,667, plus interest of BDC's floating base rate plus 2.75% per year, due July 2018, secured by a personal guarantee of a shareholder	11,669	31,673
Term loan with monthly payments of \$1,753, plus interest of 4.98%, due March 2018, secured by a vehicle that has a net book value of \$24,084	5,214	25,435
Term loan payable in monthly principal instalments of \$2,080, plus interest of BDC's floating base rate plus 1.00% per year, due January 2019, secured by a personal guarantee of a shareholder	27,040	52,000
Term loan with monthly payments of \$1,518, plus interest of 0%, due May 2018, secured by a vehicle that has a net book value of \$35,635	7,600	25,808
Term loan with monthly payments of \$1,660, plus interest of BDC's floating base rate plus 2.30% per year, due July 2021, secured by a personal guarantee of a shareholder	71,380	91,300
Term loan payable with payments of \$1,660, plus interest of BDC's floating base rate plus 2.75% per year, due July 2022, secured by a personal guarantee of a shareholder	91,300	100,000
	383,369	535,382
<u>Less: current portion of loans payable</u>	258,450	152,019
	124,919	383,363

Principal repayments on the loans payable in each of the next five years are estimated as follows:

2018	258,450
2019	41,920
2020	39,840
2021	31,540
2022 and thereafter	11,619

8. Share capital

	2017	2016
Issued		
5,470,462 Common shares	4,521,077	4,521,077

9. Income taxes

The Company has unused federal and provincial non-capital tax losses of approximately \$1,788,000 which may be carried forward and applied to reduce taxable income in future years as follows:

December 31, 2026	754,000
December 31, 2027	741,000
December 31, 2035	272,000
December 31, 2036	21,000

The benefits of these losses have been recorded in the accounts.

10. Financial instruments risk management

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

Credit concentration

For the Company, concentrations of credit risk are related to companies who supply pharmaceutical products to retail customers. Three customers accounted for 73% (2016 – 68%) of 2017 revenues and two customers accounted for 68% (2016 – 71%) of the December 31, 2017 accounts receivable. These customers are large multinational companies and no receivables were written off during the year. The Company believes that there is no unusual exposure associated with the collection of these receivables. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

Foreign currency risk

Foreign 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 Company enters into transactions to the extent that certain purchases are derived from European Union countries and are payable in Euros as well as other purchases in US dollars. The following items are denominated in currency:

	2017	2016
	CAD\$	CAD\$
Bank indebtedness	30,772	-
Accounts payable	127,669	351,123
Purchase of inventory during the year	1,748,370	1,200,433

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

The Company is exposed to interest rate cash flow risk with respect to its bank indebtedness and loans payable, which are subject to floating interest rates (Notes 6 and 7).

11. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.

SCHEDULE "B"

Audited financial statements of Medac Pharma for the years ended March 31, 2018 and 2017

Medac Pharma, Inc.

Financial Statements

March 31, 2018 and 2017



Medac Pharma, Inc.

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Independent Auditor's Report

Board of Directors
Medac Pharma, Inc.

We have audited the accompanying financial statements of Medac Pharma, Inc., which comprise the balance sheets as of March 31, 2018 and 2017, and the related statements of operations, changes in stockholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medac Pharma, Inc. as of March 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bennett Thrasher LLP

June 27, 2018

BETTER TOGETHER

A Limited Liability Partnership of Certified Public Accountants & Consultants

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Medac Pharma, Inc.

Balance Sheets

March 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash	\$ 3,330,554.09	\$ 1,558,022.44
Accounts receivable, net	6,765,497.44	3,818,377.01
Inventories, net	2,049,529.83	4,137,762.16
Prepaid expenses	<u>1,275,038.74</u>	<u>1,206,403.50</u>
Total current assets	13,420,620.10	10,720,565.11
Property and equipment, net	266,672.84	370,008.94
Deposits	<u>520,000.00</u>	<u>120,000.00</u>
Total assets	<u>\$ 14,207,292.94</u>	<u>\$ 11,210,574.05</u>
Liabilities and Stockholder's Equity		
Current liabilities:		
Accounts payable	\$ 592,437.82	\$ 1,064,432.15
Due to Stockholder	4,259,666.26	1,857,629.41
Accrued rebates and trade discounts	3,832,184.76	1,864,790.86
Accrued compensation and benefits	<u>1,591,804.95</u>	<u>1,355,858.70</u>
Total current liabilities	<u>10,276,093.79</u>	<u>6,142,711.12</u>
Long-term liabilities:		
Stockholder notes	-	64,545,884.00
Deferred rent	<u>34,293.98</u>	<u>36,307.28</u>
Total long-term liabilities	<u>34,293.98</u>	<u>64,582,191.28</u>
Total liabilities	<u>10,310,387.77</u>	<u>70,724,902.40</u>
Commitments and contingencies (Note 6)		
Stockholder's equity:		
Common stock, no par value; authorized 25,000 shares; issued and outstanding 7,582 shares	7,582,268.00	7,582,268.00
Contributed capital	77,572,117.26	-
Accumulated deficit	<u>(81,257,480.09)</u>	<u>(67,096,596.35)</u>
Total stockholder's equity (deficit)	<u>3,896,905.17</u>	<u>(59,514,328.35)</u>
Total liabilities and stockholder's equity	<u>\$ 14,207,292.94</u>	<u>\$ 11,210,574.05</u>

See accompanying notes to financial statements.

Medac Pharma, Inc.

Statements of Operations

For the Years Ended March 31, 2018 and 2017

	2018	2017
Net sales	\$ 24,381,708.24	\$ 21,219,754.89
Cost of sales	<u>12,458,262.47</u>	<u>12,757,022.86</u>
Gross profit	11,923,445.77	8,462,732.03
Selling, general and administrative expenses	<u>23,462,374.09</u>	<u>23,930,503.78</u>
Operating loss	(11,538,928.32)	(15,467,771.75)
Other (expense) income:		
Interest expense	(2,687,591.41)	(2,792,653.94)
Other income	<u>65,635.99</u>	<u>-</u>
Loss before income taxes	(14,160,883.74)	(18,260,425.69)
Income taxes	<u>-</u>	<u>-</u>
Net loss	<u>\$ (14,160,883.74)</u>	<u>\$ (18,260,425.69)</u>

See accompanying notes to financial statements.

Medac Pharma, Inc.

**Statements of Changes in Stockholder's Equity
For the Years Ended March 31, 2018 and 2017**

	Common Stock		Contributed Capital	Accumulated Deficit	Total Stockholder's Equity (Deficit)
	Shares	Amount			
Balance at March 31, 2016	7,582	\$ 7,582,268.00	\$ -	\$ (48,836,170.66)	\$ (41,253,902.66)
Net loss	-	-	-	(18,260,425.69)	(18,260,425.69)
Balance at March 31, 2017	7,582	7,582,268.00	-	(67,096,596.35)	(59,514,328.35)
Capital contribution (Note 4)	-	-	77,572,117.26	-	77,572,117.26
Net loss	-	-	-	(14,160,883.74)	(14,160,883.74)
Balance at March 31, 2018	7,582	\$ 7,582,268.00	\$ 77,572,117.26	\$ (81,257,480.09)	\$ 3,896,905.17

See accompanying notes to financial statements.

Medac Pharma, Inc.

Statements of Cash Flows For the Years Ended March 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net loss	\$ (14,160,883.74)	\$ (18,260,425.69)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	215,148.09	265,093.43
Changes in operating assets and liabilities:		
Accounts receivable	(2,947,120.43)	(972,601.90)
Inventories	2,088,232.33	3,179,951.37
Prepaid expenses	(68,635.24)	112,959.43
Deposits	(400,000.00)	-
Accounts payable	(471,994.33)	486,784.57
Accrued rebates and trade discounts	1,967,393.90	701,832.03
Accrued compensation and benefits	235,946.51	59,922.68
Deferred rent	(2,013.30)	32,515.31
Net cash used in operating activities	<u>(13,543,926.21)</u>	<u>(14,393,968.77)</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(111,811.99)</u>	<u>(266,929.73)</u>
Net cash used in investing activities	<u>(111,811.99)</u>	<u>(266,929.73)</u>
Cash flows from financing activities:		
Proceeds from Stockholder notes	12,379,107.00	14,195,000.00
Due to Stockholder	<u>3,049,162.85</u>	<u>164,878.28</u>
Net cash provided by financing activities	<u>15,428,269.85</u>	<u>14,359,878.28</u>
Net increase (decrease) in cash	1,772,531.65	(301,020.22)
Cash, beginning of year	<u>1,558,022.44</u>	<u>1,859,042.66</u>
Cash, end of year	<u>\$ 3,330,554.09</u>	<u>\$ 1,558,022.44</u>
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 3,136,761.26</u>	<u>\$ 2,569,474.94</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Noncash capital contribution (Note 4)	<u>\$ 77,572,117.26</u>	<u>\$ -</u>

See accompanying notes to financial statements.

Medac Pharma, Inc.

Notes to Financial Statements March 31, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Medac Pharma, Inc. (the Company) was incorporated on June 19, 2012 under the laws of the State of Delaware. The sole stockholder of the Company is medac Gesellschaft für klinische Spezialpräparate mbH (the Stockholder), a global pharmaceutical company located in Wedel, Germany.

The Company developed a novel delivery system for methotrexate in the treatment of rheumatoid arthritis in the United States. In October 2014, the Company launched its sole product, Rasuvo, a subcutaneous injectable methotrexate in a ready-to-use injection device.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Accordingly, actual results could differ from those estimates.

Significant management estimates include obsolete inventory reserves, rebates to be paid to customers, Medicaid rebates, Medicare rebates, accrued returns, chargebacks, fees, and cash discounts and are included in accrued rebates and trade discounts in the accompanying financial statements. Management regularly evaluates estimates and assumptions using historical experience and other factors. Many of the Company's estimates are based on complex judgments, probabilities and assumptions that management believes to be reasonable, but that are inherently uncertain and unpredictable. As future events and their effects cannot be determined with precision, management's estimates and assumptions may prove to be incomplete or inaccurate, or unanticipated events and circumstances may occur that might cause the Company to change those estimates and assumptions. Management adjusts estimates and assumptions when facts and circumstances indicate the need for change. The Company is also subject to other risks and uncertainties that may cause actual results to differ from estimated amounts, such as changes in the healthcare environment, competition, litigation, contract interpretations, legislation and regulations.

Concentration of Credit Risk

The Company maintains cash balances at several financial institutions. From time to time, the Company's cash balance exceeds FDIC insured limits, but the Company believes it is not exposed to any significant risks on its cash deposits.

Accounts Receivable

Accounts receivable are uncollateralized customer obligations due under normal trade terms. Management individually reviews accounts receivable balances and, based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management believes that all balances are collectible and therefore, no allowance for doubtful accounts has been recorded at March 31, 2018 and 2017.

Inventories

Inventories consist of finished products available for distribution to customers and are stated at the lower of cost or market on a first-in, first-out basis. The Company records provisions throughout the year for its estimate of product that will not be used by its expiration date. The inventory reserve totaled \$645,311.50 at March 31, 2017. There was no inventory reserve at March 31, 2018.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to income as incurred. Additions and betterments are capitalized. The cost of property and equipment sold or otherwise disposed of, and the accumulated depreciation thereon, is eliminated from the property and equipment and accumulated depreciation accounts, and gains and losses are reflected in the statement of operations in the period of disposal.

Depreciation of property and equipment is provided for using the straight-line method over the estimated useful lives of the assets as follows: leasehold improvements – 4 years, furniture and equipment – 5 years, and capitalized software – 3 to 5 years.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to their projected undiscounted future cash flows. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount that the carrying amount of the assets exceeds the fair value of the assets. The Company did not recognize an impairment charge during the year ended March 31, 2018 or 2017.

Revenue Recognition

Revenue is recognized from the sale of product once all of the following criteria have been met: (1) persuasive evidence of an agreement exists; (2) the product is sold and shipped to customers; (3) the fee is fixed or determinable; and (4) collection of the amounts due is reasonably assured. The criteria are generally met when the product is received by the customer. At the time of the sale, the Company also records a variety of sales deductions, including sales rebates, discounts, incentives, and product returns.

As is typical in the pharmaceutical industry, the Company's gross product sales are subject to a variety of deductions that are generally estimated and recorded in the same period as the sale is recognized. These deductions generally represent rebates and discounts to government agencies, wholesalers and distributors, and pharmacy benefit managers. The deductions represent estimates of the related adjustments and, as such, judgment and knowledge of market conditions and practices are required when estimating the impact of the sales deductions on gross sales during a reporting period. The types of deductions the Company deducts from gross revenue include the following:

- **Commercial Rebates** - The Company participates in certain commercial rebate programs. Under these rebate programs, the Company pays a rebate to the commercial entity or third-party administrator of the program. The Company accrues estimated commercial rebates based on contract prices and its experience ratio of rebates paid to total sales during prior periods.

- **Commercial Chargebacks** - The Company provides discounts to certain entities with whom the Company has contracted. These entities purchase product from the wholesale pharmaceutical distributors at a discounted price, and the wholesale pharmaceutical distributors then charge back to the Company the difference between the wholesaler acquisition cost price (WAC) and the contracted price that the entities paid for the product. The Company accrues estimated chargebacks based on contract prices and its experience ratio of chargebacks incurred paid to total sales during prior periods.
- **Distribution Service Fees** - The Company pays distribution service fees to its wholesalers for distribution and inventory management services. The Company accrues estimated distribution fees based on contractually determined amounts, typically as a percentage of revenue.
- **Patient Access Programs** - The Company offers discounts to patients under which the patient receives a discount on his or her prescription. The Company reimburses pharmacies for this discount through third-party vendors. The Company reduces gross sales by the amount of actual co-pay and other patient assistance in the period based on the invoices received.
- **Sales Returns** - Consistent with industry practice, the Company maintains a return policy that allows customers to return product within a specified period prior to and subsequent to the product expiration date. Generally, product may be returned for a period beginning six months prior to its expiration date and up to one year after its expiration date. The majority of product returns result from product dating, which falls within the range set by the Company's policy, and are settled through the issuance of a credit to the customer. The estimate of the provision for returns is based upon the Company's historical experience with actual returns.
- **Prompt Pay Discounts** - As an incentive for prompt payment, the Company offers a 2% cash discount to customers. The Company expects that all customers will comply with the contractual terms to earn the discount. The Company records the discount as an allowance against accounts receivable and a reduction of revenue.
- **Government Rebates** - The Company participates in certain federal government rebate programs, such as Medicare and Medicaid. The Company accrues estimated government rebates based on its experience ratio of rebates paid to total sales during prior periods.
- **Government Chargebacks** - The Company provides discounts to federal government qualified entities with whom the Company has contracted. These federal entities purchase product from the wholesale pharmaceutical distributors at a discounted price, and the wholesale pharmaceutical distributors then charge back to the Company the difference between the WAC price and the contracted price that the federal entities paid for the product. The Company accrues estimated government chargebacks based on contract prices and its experience ratio of chargebacks incurred to total sales during prior periods.

Shipping Costs

Costs associated with shipping goods to customers are included in cost of sales. Shipping costs for the years ended March 31, 2018 and 2017 totaled \$263,937.79 and \$486,890.54, respectively.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense totaled \$476,312.91 and \$556,717.75 for the years ended March 31, 2018 and 2017, respectively.

Income Taxes

Income taxes are calculated using the liability method, specified by Accounting Standards Codification (ASC) 740, *Income Taxes*. Under ASC 740, the Company provides for estimated income taxes payable on current year income tax returns as well as the estimated future tax effects attributable to temporary differences and carryforwards. Measurement of deferred income taxes is based upon enacted tax laws and tax rates, with the measurement of deferred income tax assets reduced by estimated amounts of tax benefits not likely to be realized. The Company does not believe its financial statements include any material uncertain tax positions. The Company is subject to Federal and state income tax examinations by tax authorities prior to 2014.

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue with Contracts from Customers*. ASU 2014-09 supersedes the current revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated guidance is effective for annual periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of the updated guidance on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The updated guidance is effective for annual periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact of the updated guidance on the financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or stockholder's equity.

Note 2: Liquidity

The Company incurred net losses during the years ended March 31, 2018 and 2017 of approximately \$14.2 million and \$18.3 million, respectively, has an accumulated deficit of approximately \$81.3 million and \$67.1 million at March 31, 2018 and 2017, respectively, and is dependent upon the continued financial support of the Stockholder, its sole supplier of product (see Note 7). The Company has received a commitment from the Stockholder to provide additional funds during the next fiscal year to meet liquidity needs not covered by operating cash flows.

Note 3: Property and Equipment

Property and equipment consist of the following:

	2018	2017
Leasehold improvements	\$ 237,497.96	\$ 237,497.96
Furniture and equipment	341,832.45	341,346.03
Capitalized software	<u>584,777.29</u>	<u>515,987.29</u>
	1,164,107.70	1,094,831.28
Accumulated depreciation and amortization	<u>(897,434.86)</u>	<u>(724,822.34)</u>
Total	<u>\$ 266,672.84</u>	<u>\$ 370,008.94</u>

Depreciation and amortization expense during the years ended March 31, 2018 and 2017 totaled \$215,148.09 and \$265,093.43, respectively.

Note 4: Stockholder Notes

Through November 1, 2017, the Company executed numerous notes with the Stockholder with maturity dates ranging from July 2021 to December 2024. On December 29, 2017, the notes were cancelled and outstanding principal and interest totaling \$77,572,117.26 was contributed to the capital of the Company. Accrued interest totaling \$310,750.15 at December 31, 2017 was not contributed to the capital of the Company and is included in Due to Stockholder in the accompanying balance sheet at March 31, 2018.

Interest expense on the notes totaled \$2,687,589.49 and \$2,792,653.94 during the years ended March 31, 2018 and 2017, respectively. The accrued interest on the notes totaled \$759,919.78 at March 31, 2017 and the balance is included in Due to Stockholder in the accompanying balance sheet. See Note 7 for other transactions with the Stockholder.

Note 5: Income Taxes

The provision for income taxes for the years ended March 31, 2018 and 2017 consists of the following:

	2018	2017
Deferred expense (benefit)	\$ 6,028,289.96	\$ (6,125,736.22)
Valuation allowance	<u>(6,028,289.96)</u>	<u>\$ 6,125,736.22</u>
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred income tax assets at March 31, 2018 and 2017 are as follows:

	2018	2017
Deferred tax assets:		
Inventory reserve	\$ -	\$ 241,467.63
Accrued liabilities	1,904,494.19	1,821,890.62
Depreciation	70,028.48	29,903.23
Deferred rent	8,374.11	13,585.64
Capitalized costs for income tax purposes	2,153,798.23	3,593,079.65
Net operating loss carryforwards	<u>13,181,411.25</u>	<u>17,646,469.45</u>
	17,318,106.26	23,346,396.22
Valuation allowance	<u>(17,318,106.26)</u>	<u>(23,346,396.22)</u>
Deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

At March 31, 2018 and 2017, the Company has net operating loss (NOL) carryforwards of approximately \$62,800,000.00 and \$51,397,000.00, respectively, available to offset future taxable income. The NOL carryforwards begin to expire in 2037 if not utilized.

On December 22, 2017, the federal government passed the Tax Cuts and Jobs Act (the Act), which lowered the corporate federal tax rate from 35% to 21%, effective January 1, 2018. As a result of the change in federal rates, an adjustment to the net deferred tax asset of approximately \$10,362,000 was recorded during the fiscal year ended March 31, 2018.

Note 6: Lease Commitments

The Company leases office space in Chicago, Illinois under an operating lease that matures on June 30, 2021. The monthly rental payments are subject to escalation provisions on July 1 of each year. Under terms of the lease, the Company is responsible for insurance and increases in real estate taxes and operating costs over a base amount specified in the lease agreement.

The accompanying financial statements reflect rent expense on a straight-line basis, which differs from the cash payments required under the lease. The excess of rent expense over cash payments is recorded as deferred rent on the accompanying balance sheet, which totaled \$34,294.23 and \$36,307.28 at March 31, 2018 and 2017, respectively.

At March 31, 2018, future minimum lease payments are as follows:

Year Ending March 31,	
2019	\$ 259,685.61
2020	263,759.10
2021	267,832.62
2022	<u>67,212.75</u>
	<u>\$ 858,490.08</u>

Rent expense totaled \$253,598.88 and \$176,025.55 for the years ended March 31, 2018 and 2017, respectively.

Note 7: Related Party Transactions

The Company purchases all of its product from the Stockholder pursuant to a license and supply agreement. The agreement matures in March 2022 and will automatically renew for one-year periods thereafter. The agreement provides for escalating per unit prices based on cumulative sales volumes and minimum purchase quantities based on anticipated product orders.

In March 2017, the agreement was amended and among other things, the amendment removed the original sales milestone payment provisions to be paid by the Company. In 2017, a due from Stockholder balance of \$2,500,000.00 recorded in connection with the initial agreement was expensed and is included in selling, general and administrative expenses in the accompanying statements of operations.

Transactions and balances with the Stockholder as of March 31, 2018 and 2017 and for the years then ended also include the following:

	2018	2017
Accounts payable (due to Stockholder)	\$ 3,948,916.11	\$ 1,097,709.63
Accrued interest (due to Stockholder)	310,750.15	759,919.78
Stockholder notes	-	64,545,884.00
Inventory purchases (cost of sales)	10,116,172.09	9,272,062.31
Interest expense	2,687,589.49	2,792,653.94
Other expense	187,500.00	-

Note 8: Concentrations

The Company is subject to concentration of credit risk with respect to sales and accounts receivable. During 2018 and 2017, two and three customers accounted for approximately 88% and 95% of the Company's sales, respectively. Additionally, as of March 31, 2018 and 2017, two and three customers comprise approximately 93% and 98% of outstanding accounts receivable, respectively.

Note 9: Employee Benefit Plan

The Company has adopted a 401(k) plan covering all employees who have completed three months of service and are age 21 or older. Eligible participants may elect salary deferral contributions up to the maximum amount allowed under the Internal Revenue Code. Under the plan's safe harbor provisions, the Company is required to make employer contributions in an amount equal to 3% of compensation, as defined. The Company recorded an accrual of \$233,841.56 and \$211,063.72 for the safe harbor contribution for the year ended March 31, 2018 and 2017, respectively. The accrual is included in accrued compensation and benefits in the accompanying balance sheet.

Note 10: Subsequent Events

Management evaluates events and transactions occurring subsequent to March 31, 2018 through the date of the report, the date the financial statements were available for issuance, and has concluded that there are no events requiring recognition or disclosure.

* * * * *

SCHEDULE "C"

**Unaudited interim financial statements of Medexus for the three and nine month periods ended
September 30, 2018 and 2017**

Medexus Inc.
Financial Statements
Unaudited - CAD \$
September 30, 2018

Medexus Inc.
Contents

For the 9 months ended September 30, 2018

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Medexus Inc.
Balance Sheet

As at September 30, 2018

	2018	2017
Assets		
Current		
Cash	16,127	2,687
Accounts receivable	917,902	454,951
Government sales tax receivable	-	-
Inventory	1,466,758	813,462
Prepaid expenses and deposits	987,369	615,678
	3,388,156	1,886,777
Property and equipment (Note 3)	399,808	432,105
Intangible assets (Note 4)	1,304,904	998,366
Future income taxes	294,518	360,697
Advances to corporate shareholder (Note 5)	884,714	736,645
	6,272,099	4,414,589
Liabilities		
Current		
Bank indebtedness (Note 6)	628,988	608,205
Accounts payable and accruals	1,507,064	413,790
Promissory note payable (Note 5)	0	190,000
Current portion of loans payable (Note 7)	36,939	40,492
	2,172,990	1,252,487
Loans payable (Note 7)	727,241	383,780
	2,900,231	1,636,267
Shareholders' Equity		
Share capital (Note 8)	4,828,577	4,521,077
Deficit	(1,456,708)	(1,742,755)
	3,371,868	2,778,322
	6,272,099	4,414,589

Medexus Inc.
Statement of Earnings

For the nine months ended September 30, 2018

	2018	2017
Revenue		
Gross sales	4,848,579	3,407,261
Discounts, returns and adjustments	-774,910	-307,412
	4,073,669	3,099,849
Cost of sales		
Purchases	1,715,739	1,278,112
Freight in	89,931	79,036
Duty, brokerage and distributor commissions	2,488	4,350
	1,808,157	1,361,498
Gross profit	2,265,512	1,738,351
Operating expenses		
Salaries and benefits	736,464	548,059
Advertising and promotion	605,531	406,073
Travel	109,604	76,885
Interest (<i>Note 5</i>)	68,601	59,740
Licenses, subscriptions and dues	43,206	38,444
Supplies	38,727	37,777
Meals and entertainment	52,832	30,856
Professional fees	26,024	31,496
Office and general	35,587	28,621
Utilities and telecommunications	19,532	15,669
Insurance	14,348	10,252
Repairs and maintenance	1,971	6,518
Property taxes	6,803	6,579
Automotive	325	3,490
Amortization - intangible assets	33,116	42,811
Amortization - property and equipment	143,295	93,384
	1,935,963	1,436,655
Earnings before income taxes	329,548	301,696
Provision for future income taxes (<i>Note 9</i>)	0	0
Net earnings	329,548	301,696

Medexus Inc.
Statement of Changes in Equity
For the year nine months ended 30, 2018

	2018	2017
Share capital		
Balance, beginning of year	4,521,077	4,521,077
Issuance of common shares	307,500	-
Balance, end of year	4,828,577	4,521,077
Retained earnings (deficit)		
Balance, beginning of year	(1,786,257)	(2,044,451)
Net income for the year	329,548	301,696
Balance, end of September 30	(1,456,709)	(1,742,755)
Total equity	3,371,868	2,778,322

Medexus Inc.
Statement of Cash Flows

For the year nine months ended September 30, 2018

	2018	2017
Cash provided by (used in) the following activities		
Operating activities		
Cash received from customers	4,437,695	3,391,230
Cash paid to suppliers	(3,894,269)	(2,678,508)
Cash paid to employees	(736,464)	(548,059)
Interest paid	(68,601)	(49,740)
	(260,887)	117,152
Financing activities		
Proceeds from operating loan	-	125,000
Proceeds from loans payable	620,000	
Repayment of loans payable	(374,204)	(82,383)
Issue of common shares	307,500	
Premium on redemption of common shares	-	
Redemption of common shares	-	
	553,296	42,617
Investing activities		
Purchases of property and equipment	(13,930)	(7,292)
Purchase of intangible assets	(181,740)	(143,890)
Advances to corporate shareholder	(85,546)	(7,594)
	(281,216)	(158,776)
Increase in cash	10,441	(1,235)
Cash, beginning of year	5,686	3,922
Cash, end of year	16,127	2,687

1. General operations

Medexus Inc. (the "Company") was incorporated under the laws of the Province of Ontario on July 15, 1999. The Company distributes and sells various pharmaceutical products within Canada.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian accounting standards for private enterprises, using the following significant accounting policies:

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, there is no uncertainty as to customer acceptance, the price to the buyer is fixed or determinable and collection is reasonably assured.

Revenues from sale of goods are reported on a net basis, calculated as gross billings less applicable discounts, rebates or any sales returns during the year.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. During the nine months, inventory of \$1,542,244 (2017 \$1,135,982) was expensed. Inventory is comprised of finished goods only.

Property and equipment

Property and equipment are initially recorded at cost. Amortization is provided using the following methods at rates intended to amortize the cost of assets over their estimated useful lives:

	Method	Rate
Buildings	declining balance	4 %
Machinery and equipment	declining balance	20 %
Furniture and fixtures	declining balance	20 %
Vehicles	declining balance	30 %
Computer equipment and software	declining balance	55 %
Dies and film plates	declining balance	20 %

Intangible assets

Specified intangible assets are recognized and reported apart from goodwill.

Intangible assets recognized separately from goodwill and subject to amortization are recorded at cost and amortized using the straight-line method at rates intended to amortize the cost of the intangible assets over their estimated useful lives. Intangible assets subject to amortization are tested for impairment as disclosed in the long-lived assets accounting policy note (Note 4).

	Method	Rate
Product licenses	straight-line	5 and 7 years
Website	straight-line	5 years
Production costs	straight-line	3 years

2. Significant accounting policies *(Continued from previous page)*

Impairment of long-lived assets

Long-lived assets consist of property, equipment and intangible assets with finite useful lives. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. The carrying amount of a group of long-lived assets is not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows from their use and disposal. If the carrying amount is not recoverable, impairment is then measured as the amount by which the assets' carrying amount exceeds its fair value. Fair value is measured using discounted future cash flows. Any impairment is included in earnings for the year.

Foreign currency translation

These financial statements have been presented in Canadian dollars, the principal currency of the Company's operations.

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Gains and losses on translation or settlement are included in the determination of net earnings for the current period.

Financial instruments

The Company recognizes its financial instruments when the Company becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with CPA Canada Handbook Section 3840 Related Party Transactions (Note 5).

At initial recognition, the Company may irrevocably elect to subsequently measure any financial instrument at fair value. The Company has not made such an election during the year.

The Company subsequently measures investments in equity instruments quoted in an active market and all derivative instruments, except those designated in a qualifying hedging relationship or that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, at fair value. Investments in equity instruments not quoted in an active market and derivatives that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, are subsequently measured at cost less impairment. With the exception of financial liabilities indexed to a measure of the Company's performance or value of its equity and those instruments designated at fair value, all other financial assets and liabilities are subsequently measured at amortized cost.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in net loss. Conversely, transaction costs and financing fees are added to the carrying amount for those financial instruments subsequently measured at amortized cost or cost.

Financial assets measured at amortized cost include cash and accounts receivable. Financial liabilities measured at amortized cost include bank indebtedness, accounts payable and accruals, promissory note payable and loans payable.

2. **Significant accounting policies** *(Continued from previous page)*

Financial asset impairment

The Company assesses impairment of all its financial assets measured at cost or amortized cost. The Company groups assets for impairment testing when determining whether objective evidence of impairment exists. When there is an indication of impairment, the Company determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, the Company reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current year earnings.

The Company reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in net earnings (loss) in the year the reversal occurs.

Income taxes

The Company accounts for income taxes using the future income taxes method. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful life of property, equipment and intangible assets. Accounts payable and accruals are assessed for completeness.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the year in which they become known.

3. **Property and equipment as at September 30**

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>2018 Net book value</i>	<i>2017 Net book value</i>
Buildings	361,067	69,209	291,858	302,716
Machinery and equipment	92,329	78,698	13,631	14,106
Furniture and fixtures	77,720	67,618	10,102	12,231
Vehicles	163,035	117,065	45,976	51,693
Computer software	9,706	8,881	825	825
Computer equipment	114,026	112,020	2,007	11,726
Dies and film plates	70,288	34,874	35,414	38,808
	888,172	488,313	399,808	432,105

Medexus Inc.
Notes to the Financial Statements
For the nine months ended September 30, 2018

4. Intangible assets as at September 30

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>2018 Net book value</i>	<i>2017 Net book value</i>
Product licenses	1,396,001	258,349	1,137,652	832,772
Website	201,971	79,680	122,291	110,142
Production costs	59,948	14,987	44,961	55,452
			1,304,904	998,366

5. Related party transactions

Amounts due from corporate shareholder are unsecured, non-interest bearing with no fixed terms of repayment.

The promissory note payable which is due to a shareholder is secured by a second ranking general security agreement covering all assets of the Company, bears interest at 12% per annum and is due on December 31, 2018. The shareholder has requested repayments be repaid on a monthly basis during the year when cash available to the Company exceeds \$200,000. During the nine months, interest expense of \$16,928(2017 - \$17,053) was paid on this note.

6. Bank Indebtedness

The Company has an authorized demand bank operating facility of \$1,000,000. The operating line of credit bears interest at prime plus 2% per annum and is secured by a general security agreement representing a first charge on all the Company's assets, an assignment of fire insurance and continuing collateral mortgage on the building. The Company was in compliance with all significant covenants contained in its banking agreement as at September 30, 2018.

Medexus Inc.
Notes to the Financial Statements
For the nine months ended September 30, 2018

7. Loans payable as at September 30

	2018	2017
Mortgage payable in monthly principal instalments of \$833, plus interest of prime plus 1%, due February 2018, secured consistent with the facility described in Note 6	144,180	154,166
Term loan payable in monthly principal instalments of \$2,500, plus interest of BDC's floating base rate plus 2.25% per year, due July 2018, secured by a personal guarantee of a shareholder	0	25,000
Term loan payable in monthly principal instalments of \$1,667, plus interest of BDC's floating base rate plus 2.75% per year, due July 2018, secured by a personal guarantee of a shareholder	0	16,670
Term loan with monthly payments of \$1,753, plus interest of 4.98%, due March 2018, secured by a vehicle that has a net book value of \$24,084	0	10,364
Term loan payable in monthly principal instalments of \$2,080, plus interest of BDC's floating base rate plus 1.00% per year, due January 2019, secured by a personal guarantee of a shareholder	0	33,280
Term loan with monthly payments of \$1,518, plus interest of 0%, due May 2018, secured by a vehicle that has a net book value of \$35,635	0	12,152
Term loan with monthly payments of \$1,660, plus interest of BDC's floating base rate plus 2.30% per year, due July 2021, secured by a personal guarantee of a shareholder	0	76,360
Term loan payable with payments of \$1,660, plus interest of BDC's floating base rate plus 2.75% per year, due July 2022, secured by a personal guarantee of a shareholder	0	96,280
Term loan payable with payments of \$1,660, plus interest of BDC's floating base rate plus 2.75% per year, due July 2022, secured by a personal guarantee of a shareholder	620,000	0
	764,180	424,272
Less: current portion of loans payable	36,939	40,492
	727,241	383,780

Principal repayments on the loans payable in each of the next five years are estimated as follows:

2019	147,836
2020	147,756
2021	147,756
2022	147,756

8. Share capital

	2018	2017
Issued		
5,710,462 Common shares, (2017 – 5,470,462)	4,828,577	4,521,077

Medexus Inc.
Notes to the Financial Statements
For the nine months ended September 30, 2018

9. Income taxes

The Company has unused federal and provincial non-capital tax losses of approximately \$1,788,000 which may be carried forward and applied to reduce taxable income in future years as follows:

December 31, 2026	754,000
December 31, 2027	741,000
December 31, 2035	272,000
December 31, 2036	21,000

The benefits of these losses have been recorded in the accounts.

10. Financial instruments risk management

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

Credit concentration

For the Company, concentrations of credit risk are related to companies who supply pharmaceutical products to retail customers. Three customers accounted for 77% (2017 –78%) of 2018 revenues and two customers accounted for 67% (2017 – 67%) of the December 31, 2017 accounts receivable. These customers are large multinational companies and no receivables were written off during the year. The Company believes that there is no unusual exposure associated with the collection of these receivables. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

Foreign currency risk

Foreign 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 Company enters into transactions to the extent that certain purchases are derived from European Union countries and are payable in Euros as well as other purchases in US dollars. The following items are denominated in currency:

	2018	2017
	CAD\$	CAD\$
Bank indebtedness	0	0
Accounts payable	735,996	167,451
Purchase of inventory during the year	2,128,554	746,351

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

The Company is exposed to interest rate cash flow risk with respect to its bank indebtedness and loans payable, which are subject to floating interest rates (Notes 6 and 7).

11. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation

SCHEDULE "D"

**Unaudited interim financial statements of Medac Pharma for the three and six month periods
ended September 30, 2018 and 2017**

Medac Pharma, Inc.

Financial Statements

September 30, 2018 and September 30, 2017

Medac Pharma, Inc.

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September 30, 2018 and September 30, 2017

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Medac Pharma, Inc.

Balance Sheets

September 30, 2018 and September 30, 2017

(Unaudited) In US\$

	As of 9/30/2018	As of 9/30/2017
ASSETS		
Current Assets		
Cash	\$1,765,670.76	\$841,120.59
Accounts Receivable	\$7,778,203.54	\$7,088,508.25
Inventory	\$2,029,837.72	\$3,433,965.40
Prepaid Expenses	\$2,044,370.15	\$2,082,057.52
Total Current Assets	\$13,618,082.17	\$13,445,651.76
Property and equipment, net	\$214,555.33	\$311,498.66
Security Deposits	\$520,000.00	\$120,000.00
Total ASSETS	\$14,352,637.50	\$13,877,150.42
LIABILITIES & EQUITY		
Current Liabilities		
Accounts Payable	\$507,726.25	\$596,565.45
AP Due to Stockholder	\$3,288,341.90	\$1,247,106.68
Credit Card Payable	\$3,548.63	\$3,259.39
Accrued Compensation and benefits	\$912,985.24	\$475,316.69
Accrued rebates and trade discounts	\$5,663,609.29	\$4,891,894.59
Interest Due to Stockholder	\$0.00	\$900,893.26
Total Current Liabilities	\$9,463,226.07	\$7,639,719.37
Long Term Liabilities		
Stockholder Notes	\$0.00	\$74,245,884.00
Deferred Rent	\$31,759.79	\$35,809.82
Total Long Term Liabilities	\$31,759.79	\$74,281,693.82
Equity		
Common Stock, no par value; authorized 25,000 shares; issued and outstanding 7,582 shares	\$7,582,268.00	\$7,582,268.00
Contributed Capital	\$77,572,117.26	\$0.00
Accumulated deficit	(\$80,296,733.62)	(\$75,626,530.77)
Total Equity	\$4,857,651.64	(\$68,044,262.77)
Total LIABILITIES & EQUITY	\$14,352,637.50	\$13,877,150.42

See accompanying notes to financial statements.

Medac Pharma, Inc.

Income Statements

For the Six Months Ended September 30, 2018 and September 30, 2017

(Unaudited) In US\$

	4/1/2018 - 9/30/2018	4/1/2017 - 9/30/2017
Net Sales	\$14,096,630.37	\$11,147,789.10
Cost Of Sales	\$4,185,896.29	\$6,633,885.84
Gross Profit	\$9,910,734.08	\$4,513,903.26
Expense		
Personnel Expenses	\$4,829,113.85	\$4,867,462.11
Selling Expenses	\$449,866.78	\$528,812.06
Marketing & Distribution Expenses	\$707,279.50	\$2,317,705.90
Travel & Entertainment Expenses	\$943,184.02	\$1,074,997.19
Energy Expenses	\$2,807.80	\$2,684.46
Maintenance & Repair Expenses	\$1,096.60	\$540.20
Administration Expenses	\$996,622.75	\$1,139,356.42
Other Operating Expense	\$284,607.47	\$303,544.70
Clinical & Regulatory Expenses	\$865,927.42	\$814,058.06
Medical Affairs Expenses	\$0.00	\$165,527.00
Depreciation & Amortization	\$59,850.61	\$103,036.43
Total Selling, general and administrative expenses	\$9,140,356.80	\$11,317,724.53
Ordinary Income (Loss)	\$770,377.28	(\$6,803,821.27)
Other Income and Expenses		
Other Income	\$191,440.91	\$4,488.86
Interest Expense	\$682.35	\$1,729,712.76
Other Expense	\$1,071.72	\$1,730,602.01
Net Other Income (Loss)	\$190,369.19	(\$1,726,113.15)
Net Income (Loss)	\$960,746.47	(\$8,529,934.42)

See accompanying notes to financial statements.

Medac Pharma, Inc.

Statements of Changes in Stockholder's Equity
 For the Six Months Ended September 30, 2018 and September 30, 2017
 (Unaudited) In US\$

	Common Stock		Contributed Capital	Accumulated Income (Deficit)	Total Stockholder's Equity (Deficit)
	Shares	Amount			
Balance at March 31, 2018	7,582	\$ 7,582,268.00	\$ 77,572,117.26	\$ (81,257,480.09)	\$ 3,896,905.17
Net Income				\$ 960,746.47	\$ 960,746.47
Balance at September 30, 2018	7,582	\$ 7,582,268.00	\$ 77,572,117.26	\$ (80,296,733.62)	\$ 4,857,651.64

	Common Stock		Contributed Capital	Accumulated Income (Deficit)	Total Stockholder's Equity (Deficit)
	Shares	Amount			
Balance at March 31, 2017	7,582	\$ 7,582,268.00	\$ -	\$ (67,096,596.35)	\$ (59,514,328.35)
Net Loss				\$ (8,529,934.42)	\$ (8,529,934.42)
Balance at September 30, 2017	7,582	\$ 7,582,268.00	\$ -	\$ (75,626,530.77)	\$ (68,044,262.77)

See accompanying notes to financial statements.

Medac Pharma, Inc.

Statements of Cash Flows

For the Six Months Ended September 30, 2018 and September 30, 2017
(Unaudited) In US\$

	4/1/2018 - 9/30/2018	4/1/2017 - 9/30/2017
Cash Flow from Operating Activities		
Net Income	\$960,746.47	(\$8,529,934.42)
Adjustments to Net Income		
Accounts Receivable	(\$867,671.88)	(\$3,185,106.08)
Other Current Asset	(\$749,639.30)	(\$171,857.26)
Accounts Payable	(\$724,806.45)	(\$315,397.44)
Other Current Liabilities	(\$233,095.49)	\$1,727,380.53
Total Adjustments to Net Income	(\$2,575,213.12)	(\$1,944,980.25)
Total Cash Flow from Operating Activities	(\$1,614,466.65)	(\$10,474,914.67)
Cash Flow from Investing Activities		
Fixed Asset	\$32,221.86	\$21,886.66
Other Asset	\$19,895.65	\$36,623.62
Total Cash Flow from Investing Activities	\$52,117.51	\$58,510.28
Cash Flow from Financing Activities		
Long Term Liabilities	(\$2,534.19)	\$9,699,502.54
Total Cash Flow from Financing Activities	(\$2,534.19)	\$9,699,502.54
Net Change in Cash for Period	(\$1,564,883.33)	(\$716,901.85)
Cash at Beginning of Period	\$3,330,554.09	\$1,558,022.44
Cash at End of Period	\$1,765,670.76	\$841,120.59

See accompanying notes to financial statements.

Medac Pharma, Inc.

Notes to Financial Statements
September 30, 2018 and September 30, 2017
(Unaudited) In US\$

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Medac Pharma, Inc. (the Company) was incorporated on June 19, 2012 under the laws of the State of Delaware. The sole stockholder of the Company is medac Gesellschaft für klinische Spezialpräparate mbH (the Stockholder), a global pharmaceutical company located in Wedel, Germany.

The Company developed a novel delivery system for methotrexate in the treatment of rheumatoid arthritis in the United States. In October 2014, the Company launched its sole product, Rasuvo, a subcutaneous injectable methotrexate in a ready-to-use injection device.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Accordingly, actual results could differ from those estimates.

Significant management estimates include rebates to be paid to customers, Medicaid rebates, Medicare rebates, accrued returns, chargebacks, fees, and cash discounts and are included in accrued rebates and trade discounts in the accompanying financial statements. Management regularly evaluates estimates and assumptions using historical experience and other factors. Many of the Company's estimates are based on complex judgments, probabilities and assumptions that management believes to be reasonable, but that are inherently uncertain and unpredictable. As future events and their effects cannot be determined with precision, management's estimates and assumptions may prove to be incomplete or inaccurate, or unanticipated events and circumstances may occur that might cause the Company to change those estimates and assumptions. Management adjusts estimates and assumptions when facts and circumstances indicate the need for change. The Company is also subject to other risks and uncertainties that may cause actual results to differ from estimated amounts, such as changes in the healthcare environment, competition, litigation, contract interpretations, legislation and regulations.

Concentration of Credit Risk

The Company maintains cash balances at financial institution in the United States. From time to time, the Company's cash balance exceeds FDIC insured limits, but the Company believes it is not exposed to any significant risks on its cash deposits.

Accounts Receivable

Accounts Receivable are uncollateralized customer obligations due under normal trade terms. Management individually reviews accounts receivable balances and, based on assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management believes that all balances are collectible and therefore, no allowance for doubtful accounts has been recorded at September 30, 2018 and 2017.

Inventories

Inventories consist of finished products available for distribution to customers and are stated at the lower of cost or market on a first-in, first-out basis. The Company records provisions throughout the year for its estimates of product that will not be used by its expiration date. There was no inventory reserve at September 30, 2018 and 2017.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to income as incurred. Additions and betterments are capitalized. The cost of property and equipment sold or otherwise disposed of, and the accumulated depreciation thereon, is eliminated from the property and equipment and accumulated depreciation accounts, and gains and losses are reflected in the income statements in the period of disposal.

Depreciation of property and equipment is provided for using the straight-line method over the estimated useful lives of the assets as follows: leasehold improvements – 4 years, furniture and equipment – 5 years, and capitalized software – 3 to 5 years.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to their projected undiscounted future cash flows. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount that the carrying amount of the

assets exceeds the fair value of the assets. The Company did not recognize an impairment change during the period ended September 30, 2018 or 2017.

Revenue Recognition

Revenue is recognized from the sale of product once all of the following criteria have been met: (1) persuasive evidence of an agreement exists; (2) the product is sold and shipped to customers; (3) the fee is fixed or determinable; and (4) collection of the amounts due is reasonably assured. The criteria are generally met when the product is received by the customer. At the time of the sale, the Company also records a variety of sales deductions, including sales rebates, discounts, incentives, and product returns.

As is typical in the pharmaceutical industry, the Company's gross product sales are subject to a variety of deductions that are generally estimated and recorded in the same period as the sale is recognized. These deductions generally represent rebates and discounts to government agencies, wholesalers and distributors, and pharmacy benefit managers. The deductions represent estimates of the related adjustments and, as such, judgment and knowledge of market conditions and practices are required when estimating the impact of the sales deductions on gross sales during a reporting period. The types of deductions the Company deducts from gross revenue include the following:

- **Commercial Rebates** - The Company participates in certain commercial rebate programs. Under these rebate programs, the Company pays a rebate to the commercial entity or third-party administrator of the program. The Company accrues estimated commercial rebates based on contract prices and its experience ratio of rebates paid to total sales during prior periods.
- **Commercial Chargebacks** - The Company provides discounts to certain entities with whom the Company has contracted. These entities purchase product from the wholesale pharmaceutical distributors at a discounted price, and the wholesale pharmaceutical distributors then charge back to the Company the difference between the wholesaler acquisition cost price (WAC) and the contracted price that the entities paid for the product. The Company accrues estimated chargebacks based on contract prices and its experience ratio of chargebacks incurred paid to total sales during prior periods.
- **Distribution Service Fees** - The Company pays distribution service fees to its wholesalers for distribution and inventory management services. The Company accrues estimated distribution fees based on contractually determined amounts, typically as a percentage of revenue.
- **Co-Pay Assistance Programs** - The Company offers discounts to patients under which the patient receives a discount on his or her prescription. The Company reimburses

pharmacies for this discount through third-party vendors. The Company reduces gross sales by the amount of actual co-pay and other patient assistance in the period based on the invoices received.

- Sales Returns - Consistent with industry practice, the Company maintains a return policy that allows customers to return product within a specified period prior to and subsequent to the product expiration date. Generally, product may be returned for a period beginning six months prior to its expiration date and up to one year after its expiration date. The majority of product returns result from product dating, which falls within the range set by the Company's policy, and are settled through the issuance of a credit to the customer. The estimate of the provision for returns is based upon the Company's historical experience with actual returns.
- Prompt Pay Discounts - As an incentive for prompt payment, the Company offers a 2% cash discount to customers. The Company expects that all customers will comply with the contractual terms to earn the discount. The Company records the discount as an allowance against accounts receivable and a reduction of revenue.
- Government Rebates - The Company participates in certain federal government rebate programs, such as Medicare and Medicaid. The Company accrues estimated government rebates based on its experience ratio of rebates paid to total sales during prior periods.
- Government Chargebacks - The Company provides discounts to federal government qualified entities with whom the Company has contracted. These federal entities purchase product from the wholesale pharmaceutical distributors at a discounted price, and the wholesale pharmaceutical distributors then charge back to the Company the difference between the WAC price and the contracted price that the federal entities paid for the product. The Company accrues estimated government chargebacks based on contract prices and its experience ratio of chargebacks incurred to total sales during prior periods.

Shipping Costs

Costs associated with shipping goods to customers are included in cost of sales. Shipping costs for the period ended September 30, 2018 and 2017 totaled \$62,738.37 and \$194,931.49, respectively.

Income Taxes

Income taxes are calculated using the liability method, specified by Accounting Standards Codification (ASC) 740, Income Taxes. Under ASC 740, the Company provides for estimated income taxes payable on current year income tax returns as well as the estimated future tax

effects attributable to temporary differences and carryforwards. Measurement of deferred income taxes is based upon enacted tax laws and tax rates, with the measurement of deferred income tax assets reduced by estimated amounts of tax benefits not likely to be realized. The Company does not believe its financial statements include any material uncertain tax positions.

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue with Contracts from Customers. ASU 2014-09 supersedes the current revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated guidance is effective for annual periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of the updated guidance on the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The updated guidance is effective for annual periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact of the updated guidance on the financial statements.

Note 2: Property and Equipment

Property and equipment consist of the following:

	As of 9/30/2018	As of 9/30/2017
Leasehold Improvements	\$ 240,179.44	\$ 237,497.96
Furniture and Equipment	\$ 338,202.48	\$ 333,349.99
Capitalized Software	\$ 590,047.29	\$ 531,577.29
	\$ 1,168,429.21	\$ 1,102,425.24
Accumulated depreciation and amortization	\$ (953,873.88)	\$ (790,926.58)
Total	\$ 214,555.33	\$ 311,498.66

Depreciation and amortization expense during the six months ended September 30, 2018 and 2017 totaled \$59,850.61 and \$103,036.43, respectively.

Note 3: Stockholder Notes

Through November 1, 2017, the Company executed numerous notes with the Stockholder with maturity dates ranging from July 2021 to December 2024. On December 29, 2017, the notes were cancelled and outstanding principal and interest totaling \$77,572,117.26 was contributed to the capital of the Company.

Interest Expense on the notes totaled \$1,729,712.76 during the six-month period ended September 30, 2017. No interest expense to stockholder incurred during the six months ended September 30, 2018.

Note 4: Lease Commitments

The Company leases office space in Chicago, Illinois under an operating lease that matures on June 30, 2021. The monthly rental payments are subject to escalation provisions on July 1 of each year. Under terms of the lease, the Company is responsible for insurance and increases in real estate taxes and operating costs over a base amount specified in the lease agreement.

The accompanying financial statements reflect rent expense on a straight-line basis, which differs from the cash payments required under the lease. The excess of rent expense over cash payments is recorded as deferred rent on the accompanying balance sheet, which totaled \$31,759.79 and \$35,809.82 at September 30, 2018 and 2017, respectively.

At September 30, 2018, future minimum lease payments are as follows:

Year Ending March 31,	
2019	\$ 130,351.98
2020	263,759.10
2021	267,832.62
2022	<u>67,212.75</u>
	\$ <u>729,156.45</u>

Rent expense totaled \$126,799.44 each for the period ended September 30, 2018 and 2017.

Note 5: Related Party Transactions

The Company purchases all of its product from the Stockholder pursuant to a license and supply agreement. The agreement matures in March 2022 and will automatically renew for one-year periods thereafter. The agreement provides for escalating per unit prices based on cumulative sales volumes and minimum purchase quantities based on anticipated product orders.

Transactions and balances with the Stockholder as of September 30, 2018 and 2017 and for the periods then ended also include the following:

	Sep 30, 2018	Sep 30, 2017
Accounts Payable (due to Stockholder)	\$ 3,288,341.90	\$ 1,247,106.68
Accrued Interest (due to Stockholder)	-	900,893.26
Stockholder Notes	-	74,245,884.00

Inventory purchases (cost of sales)	3,161,885.00	5,301,212.67
Interest expense	-	1,729,712.76

Note 6: Concentrations

The Company is subject to concentration of credit risk with respect to sales and accounts receivable. During six-month period ended September 30, 2018, two and three customers accounted for approximately 89% and 97% of the Company’s sales, respectively. Additionally, as of September 30, 2018, two and three customers comprise approximately 92% and 98% of outstanding accounts receivable, respectively.

Note 7: Employee Benefit Plan

The Company has adopted a 401(k) plan covering all employees who have completed three months of service and are age 21 or older. Eligible participants may elect salary deferral contributions up to the maximum amount allowed under the Internal Revenue Code. Under the plan’s safe harbor provisions, the Company is required to make employer contributions in an amount equal to 3% of compensation, as defined. The Company recorded an accrual of \$111,600 for the safe harbor contribution for the six-month period ended September 30, 2018. The accrual is included in accrued compensation and benefits in the accompanying balance sheet.

Note 8. Subsequent Events

On October 16, 2018 the Company was acquired by Pediapharm Inc. An amended contract manufacturing and supply agreement was entered between medac Gesellschaft für klinische Spezialpräparate mbH and Pediapharm Inc. and Medac Pharma, Inc.