

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated
Financial Statements
(unaudited)

**For the three- and nine-month periods ended
December 31, 2020**
(expressed in thousands of Canadian dollars)

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Financial Position (unaudited)

As at December 31, 2020 and March 31, 2020

(expressed in thousands of Canadian dollars)

	Note	December 31, 2020 \$	March 31, 2020 \$ <i>Adjusted</i> (Note 2)
Assets			
Current assets			
Cash and cash equivalents		11,924	7,424
Accounts receivable		33,310	21,219
Inventories		16,737	19,980
Prepays		8,881	6,164
Other current assets		1,825	1,579
		72,677	56,366
Property and equipment	4	1,110	1,559
Intangible assets	5	86,069	98,971
Goodwill	5	13,481	14,269
Other long-term assets		2,698	3,006
		176,035	174,171
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		35,866	31,263
Interest payable		830	211
Income tax payable		881	965
Current portion of long-term debt	6	21,709	14,458
Balance of payable for business combination	8	1,953	1,564
		61,239	48,461
Long-term debt	6	12,461	14,019
Convertible debentures – Host	7	30,314	26,564
Convertible debentures – Derivative	7	23,335	2,820
Balance of payable for business combination	8	35,292	38,677
Deferred tax liabilities		7,903	9,195
		170,544	139,736
Shareholders' Equity			
Share capital		60,203	59,828
Contributed surplus		10,155	9,402
Cumulative translation adjustment		(1,249)	4,972
Deficit		(63,618)	(39,767)
		5,491	34,435
		176,035	174,171

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

Medexus Pharmaceuticals Inc.

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

Three- and nine-month periods ended December 31, 2020 and 2019

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

Periods ended December 31	Note	Three Months		Nine Months	
		2020 \$	2019 \$	2020 \$	2019 \$
Revenue					
Products		31,512	16,204	82,660	48,728
Cost of sales					
Cost of sales of products		13,317	6,060	32,996	17,004
Amortization of product licences	5	1,778	1,174	5,438	3,247
		15,095	7,234	38,434	20,251
Gross profit		16,417	8,970	44,226	28,477
Selling and administrative expenses	11	12,147	9,369	34,538	30,418
Research and development expenses		1,506	442	3,433	1,030
Transaction-related fees & expenses		596	229	596	229
Termination benefits		-	2,085	934	2,085
Depreciation and amortization	4,5	168	161	497	471
Operating income (loss)		2,000	(3,316)	4,228	(5,756)
Interest expense	12	3,252	2,312	9,726	6,519
Interest income		-	(69)	(3)	(256)
Convertible debentures – Unrealized loss (gain) on fair value of derivative		16,520	(2,580)	20,515	(7,610)
Foreign exchange gain		(1,184)	(347)	(2,635)	(457)
Loss before income taxes		(16,588)	(2,632)	(23,375)	(3,952)
Income tax expense		478	-	476	177
Net loss		(17,066)	(2,632)	(23,851)	(4,129)
Other comprehensive loss					
Foreign currency loss on translation of foreign operations		(2,634)	(948)	(6,221)	(1,304)
Comprehensive loss		(19,700)	(3,580)	(30,072)	(5,433)
Net loss per share					
Basic and Diluted		(1.18)	(0.19)	(1.65)	(0.28)
Weighted average number of common shares outstanding		14,461,250	14,173,724	14,455,859	14,488,857

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

Medexus Pharmaceuticals Inc.

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

Nine-month periods ended December 31, 2020 and 2019

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

	Note	Share Capital		Contributed surplus \$	Cumulative translation adjustment \$	Deficit \$	Total shareholders' equity \$
		Common shares	Amount \$				
Balance – March 31, 2019		14,746,260	61,944	7,598	1,408	(33,531)	37,419
Net loss		-	-	-	-	(4,129)	(4,129)
Other comprehensive income		-	-	-	(1,304)	-	(1,304)
Treasury shares acquired and cancelled		(779,900)	(3,223)	-	-	-	(3,223)
Share-based compensation – Stock option plan	10	-	-	46	-	-	46
Share-based compensation – RSU plan	10	-	-	1,439	-	-	1,439
Issuance of shares for settling of RSUs		91,757	362	(606)	-	-	(224)
Balance – December 31, 2019		14,058,117	59,083	8,477	104	(37,660)	30,004
Balance – March 31, 2020		14,452,154	59,828	9,402	4,972	(39,767)	34,435
Net loss		-	-	-	-	(23,851)	(23,851)
Other comprehensive income		-	-	-	(6,221)	-	(6,221)
Share-based compensation – Stock option plan	10	-	-	121	-	-	121
Share-based compensation – RSU plan	10	-	-	1,227	-	-	1,227
Share-based compensation – PSU plan	10	-	-	21	-	-	21
Issuance of shares for settling of RSUs	10	57,608	375	(616)	-	-	(241)
Balance – December 31, 2020		14,509,762	60,203	10,155	(1,249)	(63,618)	5,491

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

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Cash Flows

(unaudited)

Three- and nine-month periods ended December 31, 2020 and 2019

(expressed in thousands of Canadian dollars)

Periods ended December 31	Note	Three Months		Nine Months	
		2020 \$	2019 \$	2020 \$	2019 \$
Operating activities					
Net loss		(17,066)	(2,632)	(23,851)	(4,129)
Adjustments for					
Depreciation and amortization	4,5	168	161	497	471
Amortization of product licences	5	1,778	1,174	5,438	3,247
Share-based compensation expense	10	302	154	1,127	1,241
Interest expense	12	3,251	2,312	9,725	6,519
Convertible debentures – Unrealized loss (gain) on fair value of derivative	12	16,520	(2,580)	20,515	(7,610)
Interest income		-	(69)	(3)	(256)
Unrealized foreign exchange loss (gain)		(1,026)	(262)	(2,636)	(410)
Income tax expense (recovery)		478	-	476	177
		4,405	(1,742)	11,288	(750)
Changes in non-cash operating working capital items	15	(7,364)	707	(9,022)	766
Income taxes paid		-	-	(1,150)	(588)
Cash provided (used) by operating activities		(2,959)	(1,035)	1,116	(572)
Investing activities					
Interest received		-	69	3	256
Purchases of property and equipment		(11)	(13)	(102)	(65)
Purchases of intangible assets		(844)	-	(844)	(1,091)
Business acquisition deferred payment	8	(143)	-	(815)	-
Cash provide (used) by investing activities		(998)	56	(1,758)	(900)
Financing activities					
Interest paid		(589)	(14)	(2,929)	(1,310)
Draw on Asset-Based Loan, net		8,423	-	9,553	-
Financing fees		-	-	(393)	-
Repayment of lease liabilities		(114)	(115)	(374)	(299)
Treasury shares acquired and cancelled		-	(1,451)	-	(3,224)
Cash provided (used) by financing activities		7,720	(1,580)	5,857	(4,833)
Net change in cash and cash equivalents during the period		3,763	(2,559)	5,215	(6,305)
Impact of foreign exchange on cash and cash equivalents		(410)	(209)	(715)	(291)
Cash and cash equivalents – Beginning of period		8,571	25,377	7,424	29,205
Cash and cash equivalents – End of period		11,924	22,609	11,924	22,609

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

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

1 Incorporation and nature of activities

Medexus Pharmaceuticals Inc. (the “Company”) is a specialty pharmaceutical company which licences and acquires pharmaceutical products for commercialization in the United States and Canada. The Company exists under the Canada Business Corporations Act and is domiciled in Canada. Its registered office is located at 1 Place du Commerce, Suite 225, Verdun, Quebec, H3E 1A2. The Company’s shares are traded on the TSX Venture Exchange (TSXV).

2 Basis of presentation and summary of significant accounting policies

Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB). Certain information and disclosures have been omitted or condensed. The same accounting policies and methods of computation were followed in the preparation of these unaudited condensed interim consolidated financial statements as were followed in the preparation of the most recent annual audited consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should be read together with the Company’s audited consolidated financial statements and notes thereto for the fiscal year ended March 31, 2020.

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

These condensed interim consolidated financial statements were approved for issue by the Board of Directors of the Company on March 1, 2021.

Basis of consolidation

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies to obtain benefits from its activities. Subsidiaries are fully consolidated from the date control is obtained, and they are deconsolidated on the date control ceases. These consolidated financial statements include the Company’s subsidiaries. As at December 31, 2020, MI Acquisitions, Inc., Medac Pharma, Inc., Medexus Inc., and Aptevo BioTherapeutics LLC, are the only wholly owned direct and indirect subsidiaries of the Company. MI Acquisitions, Inc. was created solely for the purpose of acquiring Medac Pharma, Inc. and does not carry on active business other than the ownership of 100% of the outstanding shares of Medac Pharma, Inc.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

Changes to comparative balance

On February 28, 2020, the Company acquired Aptevo BioTherapeutics LLC, (“Aptevo”). At the time of issuing its March 31, 2020 consolidated financial statements, the Company had not finalized its valuation of individual assets and liabilities acquired of Aptevo. As a consequence, there were some changes between the final and disclosed purchase price allocation. The following table shows the adjustments recognized for each line item impacted by the change.

Consolidated Statements of Financial Position

As at March 31, 2020	As previously reported \$	Adjustment \$	Final amount \$
Assets			
Other current assets	2,004	(425)	1,579
Intangible assets	98,546	425	98,971

Global pandemic

In early 2020, the coronavirus (“COVID-19”) was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a global pandemic. In response to the COVID-19 pandemic, governments enacted emergency measures to combat the spread of COVID-19, including the implementation of travel bans, quarantine periods and social distancing.

As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic, the Company has reviewed the estimates, judgments and assumptions used in the preparation of its consolidated financial statements, including with respect to the determination of whether indicators of impairment exist for its property and equipment and intangible assets and the credit risk of its counterparties.

Although the Company has determined that no significant revisions to such estimates, judgments or assumptions were required for the period ended December 31, 2020, revisions may be required in future periods. Any such revision (due to COVID-19 or otherwise) could have a material impact on the Company’s results of operations and financial condition.

While the Company believes that the current conditions related to the COVID-19 pandemic to be temporary based on the information available to the Company as of the date hereof, the situation is dynamic and it is not possible to predict the duration and severity of the economic disruption, government restrictions and stimulus, social distancing and phased re-opening of economies. The broader impact that the COVID-19 outbreak may have on investors, businesses, the economy and the financial markets is currently unknown as it continues to rapidly evolve. As a result, the impact of COVID-19 on the Company’s results of operations and financial condition cannot be reasonably estimated at this time. The Company continues to evaluate the situation and monitor any impacts or potential impacts to its business.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

Estimates, judgments and assumptions

The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and reported amounts of revenues and expenses during the period. These estimates and assumptions are based on historical experience, expectations of the future, and other relevant factors and are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of uncertainty are as those applied and described in the Company's audited annual consolidated financial statements for the year ended March 31, 2020, supplemented by the additional significant judgments and key sources of uncertainty detailed below.

Seasonality of interim operations

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

Termination benefits

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

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

3 Business combinations

Aptevo BioTherapeutics LLC

On February 28, 2020, the Company acquired 100% of the outstanding shares of Aptevo BioTherapeutics LLC, (“Aptevo”), a Delaware limited liability company which owns the worldwide rights to the commercial hematology asset, IXINITY®. The Company acquired Aptevo as part of its ongoing effort to gain scale and enter a new therapeutic area. As at March 31, 2020, the purchase price allocation had not been finalized.

During the three-month period ended December 31, 2020, the preliminary acquisition-date values assigned for Other current assets and intangible assets were finalized as discussed in note 2; as required by IFRS and the IASB, comparative amounts have been adjusted so as to reflect those changes effective the acquisition date.

Assets	As previously reported	Adjustment	Final amount
	\$		\$
Current assets			
Prepaid expenses	3,992	-	3,992
Inventories	14,829	-	14,829
Other current assets	1,818	(402)	1,416
	<u>20,639</u>	<u>(402)</u>	<u>20,237</u>
Intangible assets	44,273	402	44,675
Other long term assets	2,201	-	2,201
	<u>67,113</u>	<u>-</u>	<u>67,113</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10,628	-	10,628
	<u>10,628</u>	<u>-</u>	<u>10,628</u>
Deferred tax liabilities	<u>3,508</u>	<u>-</u>	<u>3,508</u>
Total liabilities assumed	<u>14,136</u>	<u>-</u>	<u>14,136</u>
Net identifiable assets acquired	<u>52,977</u>	<u>-</u>	<u>52,977</u>
Goodwill¹	<u>3,508</u>	<u>-</u>	<u>3,508</u>
Net assets acquired	<u>56,485</u>	<u>-</u>	<u>56,485</u>
Acquisition effected by way of:			
Cash consideration	39,616	-	39,616
Balance of payable for business combination ²	16,869	-	16,869
	<u>56,485</u>	<u>-</u>	<u>56,485</u>

¹Goodwill is not deductible for tax purposes

²Includes contingent cash payments for certain deferred payments on the net sales of IXINITY®, as well as regulatory and sales-based milestone payments.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

4 Property and equipment

	Office furniture & Computer equipment \$	Right-of- use lease assets \$	Total \$
Net book value at March 31, 2020	815	744	1,559
Additions	102	-	102
Depreciation	(141)	(355)	(496)
Currency translation adjustment	(23)	(32)	(55)
Net book value at December 31, 2020	753	357	1,110
As at December 31, 2020			
Cost	1,154	1,150	2,304
Accumulated depreciation	(401)	(793)	(1,194)
Net book value	753	357	1,110
As at March 31, 2020			
Cost	1,207	1,228	2,435
Accumulated depreciation	(392)	(484)	(876)
Net book value	815	744	1,559

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

5 Intangible assets and goodwill

	Note	Intangible assets subject to amortization			Goodwill
		Licences	Software	Total	
		\$	\$	\$	\$
Net book value at March 31, 2020					
As previously reported		98,541	5	98,546	14,269
Changes to comparative balance	2	425	-	425	-
As adjusted		98,966	5	98,971	14,269
Additions		844	-	844	-
Amortization		(5,438)	(1)	(5,439)	-
Currency translation adjustment		(8,280)	-	(8,280)	(788)
Net book value at December 31, 2020		86,092	4	86,096	13,481
As at December 31, 2020					
Cost		98,158	7	98,165	13,481
Accumulated amortization		(12,066)	(3)	(12,069)	-
Net book value		86,092	4	86,096	13,481
As at March 31, 2020					
Cost		106,105	47	106,152	14,269
Accumulated amortization		(7,564)	(42)	(7,606)	-
Net book value		98,541	5	98,546	14,269

During the nine-month period ended December 31, 2020, the Company recorded additions of 844 to Licences, related to an upfront payment and a milestone payable under product licence agreements.

Triamcinolone Hexacetonide

On December 18, 2020, the Company entered into an exclusive agreement with Ethypharm for the rights to register and commercialize Triamcinolone Hexacetonide Injectable Suspension 20 mg/mL (“TH”) in the United States. TH is indicated for intra-articular, intrasynovial, or periarticular use in adults and adolescents for the symptomatic treatment of subacute and chronic inflammatory joint diseases.

The Company paid a small upfront fee on signing, with further milestone payments at the time of FDA approval, at commercial product launch, and upon certain sales milestones. Medexus will also pay a double-digit royalty to Ethypharm on net sales of TH in the United States. Ethypharm is obligated to supply finished product to the Company under negotiated supply terms. The transaction has been accounted for as an asset purchase. This asset was not amortized during the nine-month period ended December 31, 2020.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

6 Long-term debt

As at	Note	December 31, 2020 \$	March 31, 2020 \$
Credit facility	(a)	34,606	28,374
Deferred debt transaction costs		(817)	(688)
Lease liabilities		381	791
Long-term debt		34,170	28,477
Current		21,709	14,458
Non-current		12,461	14,019
Long-term debt		34,170	28,477

(a) Credit facility

	Term Loan \$	ABL \$	Total \$
As at December 31, 2020			
Outstanding	12,732	21,874	34,606
Remaining available	N/A	3,344	3,344
Total credit facility	12,732	25,218	37,950
As at March 31, 2020			
Outstanding	28,374	N/A	28,374
Remaining available	N/A	N/A	N/A
Total credit facility	28,374	N/A	28,374

Term Loan

On February 28, 2020, concurrently with the acquisition of Aptevo, the Company entered into a definitive credit agreement with a syndicate of lenders agented by MidCap Financial Trust in respect of a US\$20,000 secured term loan having a term of 40 months, expiring on July 17, 2023 (the "Term Loan").

Borrowings under the Term Loan bear interest at an annual rate of one-month London Interbank Offered Rate ("LIBOR"), plus 6.50%, subject to a LIBOR floor of 1.50%. Interest on the outstanding balance of the Term Loan is payable monthly in arrears. As at December 31, 2020, US\$10,000 of the Term Loan was outstanding with a weighted average interest rate of 8.00%.

The terms and conditions of the Term Loan include certain customary representations, warranties and covenants, including requirements to maintain a minimum net sales and a minimum earnings before interest, income taxes, depreciation and amortization ("EBITDA") – subject to certain agreed-upon adjustments. As at December 31, 2020, the Company was in compliance with these financial covenants and all of the terms and conditions of its long-term debt agreements.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

Asset-Based Loan

On May 7, 2020, the Company entered into a definitive credit agreement with a syndicate of lenders agented by MidCap Financial Trust in respect of a US\$20,000 secured asset-based revolving credit facility having a term of 38 months expiring June 30, 2023 (the “ABL Facility”). The ABL Facility features a US\$20,000 revolving commitment (subject to the borrowing base) and an uncommitted US\$10,000 accordion. An initial advance under the ABL Facility was used by the Company to repay US\$10,000 of the principal amount outstanding under the Term Loan; this was treated as a non-cash transaction by the Company.

Borrowings under the ABL Facility bear interest at an annual rate of one-month LIBOR plus 3.95%, subject to a LIBOR floor of 1.50%. Interest is payable monthly in arrears on the first business day of each month. The ABL Facility features a US\$20,000 revolving commitment (subject to the borrowing base) and an uncommitted US\$10,000 accordion. As at December 31, 2020, US\$11,763 was available to the Company under the ABL Facility, of which US\$10,836 was outstanding with a weighted average interest rate of 5.45%.

7 Convertible debentures

As at	December 31, 2020	March 31, 2020
	\$	\$
Convertible debentures issued in October 2018	31,673	28,163
Embedded derivative on convertible debentures	23,335	2,820
Deferred financing transaction costs	(1,359)	(1,599)
	53,649	29,384
Current	-	-
Non-current	53,649	29,384
	53,649	29,384

Convertible debentures issued in October 2018

The Convertible Debentures will mature on October 16, 2023, and debentures not previously converted by the holder will be repaid in full by the Company with a payment equal to 125% of the outstanding principal amount, together with all accrued and unpaid interest, with such repayment to be made in cash or, at the Company’s option, in common shares of the Company. The Convertible Debentures bear interest at a rate of 6.0% per annum beginning October 16, 2018, payable semiannually in cash, or, at the Company’s option and subject to the prior approval of the TSXV, in common shares of the Company.

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

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

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

As at	December 31, 2020	March 31, 2020
Risk-free interest rate	0.3%	0.8%
Volatility*	54.8%	51.2%
Expected life	2.75 yrs	3.5 yrs

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

8 Balance of payable for business combination

	Note	Medac \$	Aptevo \$	Total \$
Net book value at March 31, 2020		22,334	17,907	40,241
Interest accretion	12	1,434	767	2,201
Unrealized foreign exchange gain		(2,347)	-	(2,347)
Payment		(463)	(352)	(815)
Currency translation adjustment		-	(2,035)	(2,035)
Balance of payable at December 31, 2020		20,958	16,287	37,245
Current		940	1,013	1,953
Non-Current		20,018	15,274	35,292
Balance of payable at December 31, 2020		20,958	16,287	37,245

Medac Pharma Inc.

As part of the acquisition of Medac Pharma Inc. on October 16, 2018, there are contingent cash payables of US\$5,000 and annual payments in an amount equal to 7.5% of the aggregate consolidated EBITDA of the Company, subject to certain agreed-upon adjustments and until such time as an aggregate of US\$30,000 in annual payments have been made.

Aptevo BioTherapeutics LLC

As part of the acquisition of Aptevo on February 28, 2020, the Company is required to make certain deferred payments on net sales of IXINITY® in an amount equal to (i) 2% of net sales until the earlier of (x) the completion of an ongoing United States pediatric trial in respect of IXINITY®, and (y) June 30, 2022, and (ii) 5% of net sales thereafter until March 1, 2035. In addition, the Purchase Agreement requires the Company to make certain milestone payments upon IXINITY®'s receipt of Canadian and European regulatory approval in each of Germany, France, Spain, Italy and the United Kingdom and upon IXINITY® achieving worldwide annual net sales of US\$120,000, if achieved by March 1, 2035.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

9 Share capital

Authorized and issued

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

10 Share-based compensation

Stock options

Periods ended December 31, 2020	Three Months		Nine Months	
	Number of options \$	Weighted average exercise price \$	Number of options \$	Weighted average exercise price \$
Outstanding, beginning of period	241,327	5.19	246,351	5.21
Granted	196,401	4.95	196,401	4.95
Forfeited and expired	-	-	(5,024)	(5.83)
Outstanding, end of period	437,728	5.08	437,728	5.08
Exercisable, end of period	262,692	5.12	262,692	5.12

Restricted stock units (RSUs)

Periods ended December 31, 2020	Three Months		Nine Months	
	Number of units \$	Weighted average exercise price \$	Number of units \$	Weighted average exercise price \$
Outstanding, beginning of period	1,171,121	0.01	1,289,407	0.01
Granted	25,200	0.01	74,565	0.01
Exercised	(92,350)	(0.01)	(94,501)	(0.01)
Forfeited and expired	(7,500)	(0.01)	(173,000)	(0.01)
Outstanding, end of period	1,096,471	0.01	1,096,471	0.01
Exercisable, end of period	428,352	0.01	428,352	0.01

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

Performance stock units (PSUs)

Periods ended December 31, 2020	Three Months		Nine Months	
	Number of units \$	Weighted average exercise price \$	Number of units \$	Weighted average exercise price \$
Outstanding, beginning of period	-	-	-	-
Granted	72,999	0.01	72,999	0.01
Outstanding, end of period	72,999	0.01	72,999	0.01
Exercisable, end of period	-	-	-	-

During the three-months ended December 31, 2020, the Company issued PSUs to certain officers and employees of the Company under the 2018 Omnibus Equity Incentive Compensation Plan. The number of PSUs that vest is dependent on the time and the achievement of specific performance measures, which are assessed annually. The PSUs are exercisable for a nominal payment per share.

Share-based compensation expense with respect to these options, RSUs, and PSUs amounted to \$544 (2019 – \$398) for the three-month period, and \$1,369 (2019 – \$1,485) for the nine-month period, ended December 31, 2020. These costs are included in selling and administrative expenses in the consolidated statement of income (loss) and comprehensive income (loss) (note 11).

11 Selling and administrative expenses

Periods ended December 31	Three Months		Nine Months	
	2020 \$	2019 \$	2020 \$	2019 \$
Share-based compensation expense	544	398	1,369	1,485
Sales and marketing expense	5,524	5,193	16,351	17,959
Business development and regulatory affairs	2,020	1,195	5,985	3,591
General administrative	4,059	2,583	10,833	7,383
	12,147	9,369	34,538	30,418

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

12 Financing costs

Periods ended December 31	Three Months		Nine Months	
	2020	2019	2020	2019
	\$	\$	\$	\$
Interest on convertible debentures	636	635	1,899	1,899
Interest accretion on convertible debentures, net of amort. of deferred financing costs	1,347	1,064	3,749	2,961
Interest on long-term debt, net of amort. of deferred financing costs	616	-	1,851	-
Interest accretion on balance of payable for business combination	646	599	2,201	1,613
Interest on lease liabilities	7	14	26	46
Interest expense	3,252	2,312	9,726	6,519

13 Employee benefit expense

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

Periods ended December 31	Three Months		Nine Months	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salaries and benefits	4,059	3,338	11,860	9,855
Share-based compensation	81	26	145	107
	4,140	3,364	12,005	9,962

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

Periods ended December 31	Three Months		Nine Months	
	2020	2019	2020	2019
	\$	\$	\$	\$
Key management compensation				
Salaries and benefits	1,311	779	3,241	2,833
Share-based compensation	464	371	1,225	1,378
	1,775	1,150	4,466	4,211

Key management compensation is included in selling and administrative expenses.

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14 Related party transactions

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

- a) The Company pays warehouse fees to a company 50% owned by a member of the key management personnel of the Company. Warehouse fees paid totaled \$81 (2019 – \$90) for the three-month period, and \$277 (2019 – \$261) for the nine-month period, ended December 31, 2020.
- b) Royalties paid on an exclusive licensing agreement with a significant shareholder of the Company totaled \$141 (2019 - \$168) for the three-month period, and \$354 (2019 – \$384) for the nine-month period, ended December 31, 2020.
- c) Interest on convertible debentures which are owned or controlled, directly and indirectly, by two directors of the Company totaled \$91 (2019 – \$93) for the three-month period, and \$275 (2019 – \$277) for the nine-month period, ended December 31, 2020.

15 Consolidated statements of cash flows

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

Periods ended December 31	Three Months		Nine Months	
	2020 \$	2019 \$	2020 \$	2019 \$
Decrease (increase) in				
Accounts receivable	(15,494)	(1,840)	(14,566)	(5,395)
Inventories	1,797	(2,312)	1,908	(2,174)
Prepaid expenses	(3,580)	626	(3,715)	(472)
Increase in				
Accounts payable and accrued liabilities	9,913	4,233	7,351	8,807
	<u>(7,364)</u>	<u>707</u>	<u>(9,022)</u>	<u>766</u>

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

16 Geographic information

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

As at	December 31, 2020 \$	March 31, 2020* \$
United States	80,134	93,961
Canada	23,224	23,844

*Prior year amount has been adjusted to the current period presentation.

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

Periods ended December 31	Three Months		Nine Months	
	2020 \$	2019 \$	2020 \$	2019 \$
United States	25,276	9,200	62,935	28,225
Canada	6,236	7,004	19,725	20,503

17 Financial instruments

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

Market risk

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

Currency risk

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

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

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

As at	December 31, 2020 \$	March 31, 2020 \$
Cash and cash equivalents		
US dollar	9,818	4,472
Euro	26	91
Accounts receivable		
US dollar	30,829	17,774
Euro	192	-
Accounts payable and accrued liabilities		
US dollar	(30,308)	(24,677)
Euro	(39)	(1,083)
Long-term debt		
US dollar	(33,991)	(28,144)
Balance of payable for business combination		
US dollar	(37,245)	(40,241)

The table below shows the immediate increase (decrease) on net loss and other comprehensive loss of a 10% strengthening in the closing exchange rate of significant currencies to which the Company has exposure as at December 31, 2020. The sensitivity associated with a 10% weakening of a particular currency would be equal and opposite. This assumes that each currency moves in isolation. The Company has a policy to manage currency risk, but as at December 31, 2020, did not enter into arrangements to hedge its currency risk exposure.

As at	December 31, 2020 \$	March 31, 2020 \$
10% strengthening of the CA\$:US\$ exchange rate		
Impact on net loss	1,983	2,342
Impact on other comprehensive income	3,994	4,740
Impact on comprehensive income	5,977	7,082
10% strengthening of the CA\$:EUR exchange rate		
Impact on comprehensive loss	(18)	99

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Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed rate instruments subject the Company to fair value risk, while floating rate instruments subject it to cash flow risk. The Company has performed a sensitivity analysis on interest rate risk as at December 31, 2020. A change in interest rates on borrowings of 1% higher or lower would not have a significant impact on loss and comprehensive loss for the year, due to the LIBOR floor of 1.5% the Company is subject to in the Term Loan, as discussed in note 6.

The Company is exposed to interest rate risk as follows:

Cash and cash equivalents	Floating rate
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	As described in note 6
Convertible debentures	As described in note 7
Balance of payable for business combination	As described in note 8

Capital risk management

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

18 Subsequent events

Treosulfan United States Agreement

On February 2, 2020, the Company entered into an exclusive agreement with medac GmbH ("medac") for the rights to commercialize Treosulfan in the United States. Treosulfan is an innovative, orphan-designated agent developed for use as part of a conditioning treatment for patients undergoing allogeneic hematopoietic stem cell transplantation. If approved by the U.S. Food and Drug Administration ("FDA"), the Company expects that a treosulfan-based regimen will be the first in a new conditioning treatment class, Reduced Toxicity Conditioning, resulting in a unique combination of improved survival outcomes compared to reduced-intensity regimens and decreased toxicity compared to standard myeloablative regimens.

The Company paid medac a non-refundable upfront payment of U.S. \$5,000 on signing. The Company must also pay medac (i) up to an aggregate of U.S. \$55,000 in non-refundable regulatory milestone payments, contingent upon the achievement of certain regulatory events in connection with the FDA's review process, and (ii) up to an aggregate of U.S. \$40,000 in non-refundable sales milestone payments, contingent upon Medexus Pharma's achievement of certain net sales goals. In addition, the Company will pay medac a royalty on its net sales of Treosulfan in the United States. Medac is obligated to supply finished product to the Company under negotiated supply terms. The transaction will be accounted for as an asset purchase.

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Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

Bought Deal Public Offering of Shares

On February 23, 2020 (the “Closing Date”), the Company announced that it had closed an agreement with Raymond James Ltd. and Stifel GMP (the “Underwriters”), in which the Underwriters had agreed to purchase, on a “bought deal” basis, 4,581,689 units (the “Units”) of the Company at a price of \$7.10 per Unit for aggregate gross proceeds to the Company of approximately \$32,530.

Each Unit will consist of one common share and one-half of one Common Share purchase warrant. Each Warrant will entitle the holder thereof to purchase one Common Share at a price equal to \$10.00 for a period of 24 months following the Closing Date.