

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated
Financial Statements
(unaudited)

**For the three- and six-month periods ended
September 30, 2020**
(expressed in thousands of Canadian dollars)

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Financial Position
(unaudited)

As at September 30, 2020 and March 31, 2020

(expressed in thousands of Canadian dollars)

	Note	September 30, 2020 \$	March 31, 2020 \$
Assets			
Current assets			
Cash and cash equivalents		8,571	7,424
Accounts receivable		19,242	21,219
Inventories		19,061	19,980
Prepays		5,829	6,164
Other current assets		2,133	2,004
		54,836	56,791
Property and equipment	4	1,282	1,559
Intangible assets	5	89,999	98,546
Goodwill	5	13,810	14,269
Other long-term assets		2,827	3,006
		162,754	174,171
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		27,365	31,263
Interest payable		232	211
Income tax payable		236	965
Current portion of long-term debt	6	14,501	14,458
Balance of payable for business combination	8	1,627	1,564
		43,961	48,461
Long-term debt	6	12,888	14,019
Convertible debentures – Host	7	28,966	26,564
Convertible debentures – Derivative	7	6,815	2,820
Balance of payable for business combination	8	36,894	38,677
Deferred tax liabilities		8,343	9,195
		137,867	139,736
Shareholders' Equity			
Share capital		59,835	59,828
Contributed surplus		10,219	9,402
Cumulative translation adjustment		1,385	4,972
Deficit		(46,552)	(39,767)
		24,887	34,435
		162,754	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 six-month periods ended September 30, 2020 and 2019

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

Periods ended September 30	Note	Three Months		Six Months	
		2020 \$	2019 \$	2020 \$	2019 \$
Revenue					
Products		23,631	16,397	51,148	32,524
Cost of sales					
Cost of sales of products		8,977	5,685	19,679	10,943
Amortization of product licences	5	1,809	1,109	3,660	2,073
		10,786	6,794	23,339	13,016
Gross profit		12,845	9,603	27,809	19,508
Selling and administrative expenses	11	11,012	10,558	22,391	21,052
Research and development expenses		1,041	182	1,927	585
Termination benefits		-	-	934	-
Depreciation and amortization	4,5	164	156	329	310
Operating income (loss)		628	(1,293)	2,228	(2,439)
Financing costs (income)	12	3,592	(2,303)	10,469	(823)
Interest income		(1)	(87)	(3)	(187)
Foreign exchange loss (gain)		(558)	348	(1,451)	(109)
Income (loss) before income taxes		(2,405)	749	(6,787)	(1,320)
Income tax expense (recovery)		(378)	91	(2)	177
Net income (loss)		(2,027)	658	(6,785)	(1,497)
Other comprehensive income (loss)					
Foreign currency income (loss) on translation of foreign operations		(1,184)	580	(3,587)	(356)
Comprehensive income (loss)		(3,211)	1,238	(10,372)	(1,853)
Net income (loss) per share					
Basic		(0.14)	0.05	(0.47)	(0.10)
Diluted		(0.13)	0.04	(0.44)	(0.09)
Weighted average number of common shares outstanding		14,453,973	14,554,331	14,453,133	14,647,305

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

Medexus Pharmaceuticals Inc.

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

six-month periods ended September 30, 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		-	-	-	-	(1,497)	(1,497)
Other comprehensive income		-	-	-	(356)	-	(356)
Treasury shares acquired and cancelled		(418,000)	(1,773)	-	-	-	(1,773)
Share-based compensation – Stock option plan	10	-	-	33	-	-	33
Share-based compensation – RSU plan	10	-	-	1,054	-	-	1,054
Balance – September 30, 2019		14,328,260	60,171	8,685	1,052	(35,028)	34,880
Balance – March 31, 2020		14,452,154	59,828	9,402	4,972	(39,767)	34,435
Net loss		-	-	-	-	(6,785)	(6,785)
Other comprehensive income		-	-	-	(3,587)	-	(3,587)
Share-based compensation – Stock option plan	10	-	-	7	-	-	7
Share-based compensation – RSU plan	10	-	-	818	-	-	818
Issuance of shares for settling of RSUs	10	1,819	7	(8)	-	-	(1)
Balance – September 30, 2020		14,453,973	59,835	10,219	1,385	(46,552)	24,887

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

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Cash Flows

(unaudited)

Three- and six-month periods ended September 30, 2020 and 2019

(expressed in thousands of Canadian dollars)

Periods ended September 30	Note	Three Months		Six Months	
		2020 \$	2019 \$	2020 \$	2019 \$
Operating activities					
Net income (loss)		(2,027)	658	(6,785)	(1,497)
Adjustments for					
Depreciation and amortization	4,5	164	156	329	310
Amortization of product licences	5	1,809	1,109	3,660	2,073
Share-based compensation expense	10	424	539	825	1,087
Interest expense	12	3,247	2,017	6,474	4,207
Convertible debentures – Unrealized loss (gain) on fair value of derivative	12	345	(4,320)	3,995	(5,030)
Interest income		(1)	(87)	(3)	(187)
Unrealized foreign exchange loss (gain)		(654)	302	(1,610)	(148)
Income tax expense (recovery)		(378)	91	(2)	177
		2,929	465	6,883	992
Changes in non-cash operating working capital items	15	(1,851)	895	(1,658)	59
Income taxes paid		(1,150)	(588)	(1,150)	(588)
Cash provided (used) by operating activities		(72)	772	4,075	463
Investing activities					
Interest received		1	87	3	187
Purchases of property and equipment		(68)	(15)	(91)	(52)
Purchases of intangible assets		-	(478)	-	(1,091)
Business acquisition deferred payment	8	(672)	-	(672)	-
Cash used by investing activities		(739)	(406)	(760)	(956)
Financing activities					
Interest paid		(1,816)	(1,279)	(2,340)	(1,296)
Issue of current portion of long-term debt		1,203	-	1,130	-
Financing fees		-	-	(393)	-
Repayment of lease liabilities		(117)	(95)	(260)	(184)
Treasury shares acquired and cancelled		-	(1,114)	-	(1,773)
Cash used by financing activities		(730)	(2,488)	(1,863)	(3,253)
Net change in cash and cash equivalents during the period		(1,541)	(2,122)	1,452	(3,746)
Impact of foreign exchange on cash and cash equivalents		(109)	105	(305)	(82)
Cash and cash equivalents – Beginning of period		10,221	27,394	7,424	29,205
Cash and cash equivalents – End of period		8,571	25,377	8,571	25,377

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 November 16, 2020.

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 September 30, 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)

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 September 30, 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.

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.

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)

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 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.

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

	Feb 28, 2020
Assets	\$
Current assets	
Prepaid expenses	3,992
Inventories	14,829
Other current assets	1,818
	<u>20,639</u>
Intangible assets	44,273
Other long term assets	2,201
	<u>46,474</u>
Total identifiable assets acquired	<u>67,113</u>
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	10,628
	<u>10,628</u>
Deferred tax liabilities	<u>3,508</u>
Total liabilities assumed	<u>14,136</u>
Net identifiable assets acquired	52,977
Goodwill¹	<u>3,508</u>
Net assets acquired	<u>56,485</u>
Acquisition effected by way of:	
Cash consideration	39,616
Balance of payable for business combination	16,869
	<u>56,485</u>

¹Goodwill is not deductible for tax purposes

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

4 Property and equipment

	Office furniture & Computer equipment \$	Right-of- use lease assets \$	Total \$
Net book value at March 31, 2020	815	744	1,559
Additions	91	-	91
Depreciation	(94)	(234)	(328)
Currency translation adjustment	(15)	(25)	(40)
Net book value at September 30, 2020	797	485	1,282
As at September 30, 2020			
Cost	1,155	1,183	2,338
Accumulated depreciation	(358)	(698)	(1,056)
Net book value	797	485	1,282
As at March 31, 2020			
Cost	1,207	1,228	2,435
Accumulated depreciation	(392)	(484)	(876)
Net book value	815	744	1,559

5 Intangible assets and goodwill

	<u>Intangible assets subject to amortization</u>			
	Licences \$	Software \$	Total \$	Goodwill \$
Net book value at March 31, 2020	98,541	5	98,546	14,269
Additions	-	-	-	-
Amortization	(3,660)	(1)	(3,661)	-
Currency translation adjustment	(4,882)	-	(4,882)	(459)
Net book value at September 30, 2020	89,999	4	90,003	13,810
As at September 30, 2020				
Cost	100,643	7	100,650	13,810
Accumulated amortization	(10,644)	(3)	(10,647)	-
Net book value	89,999	4	90,003	13,810
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

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	September 30, 2020 \$	March 31, 2020 \$
Credit facility	(a)	27,793	28,374
Deferred debt transaction costs		(910)	(688)
Lease liabilities		506	791
Long-term debt		27,389	28,477
Current		14,501	14,458
Non-current		12,888	14,019
Long-term debt		27,389	28,477

(a) Credit facility

	Term Loan \$	ABL \$	Total \$
As at September 30, 2020			
Outstanding	13,339	14,454	27,793
Remaining available	N/A	1,236	1,236
Total credit facility	13,339	15,690	29,029
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 September 30, 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 September 30, 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.

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 September 30, 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	September 30, 2020	March 31, 2020
	\$	\$
Convertible debentures issued in October 2018	30,412	28,163
Embedded derivative on convertible debentures	6,815	2,820
Deferred financing transaction costs	(1,446)	(1,599)
	35,781	29,384
Current	-	-
Non-current	35,781	29,384
	35,781	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. As at September 30, 2020, the fair value of the derivative component was determined to be \$6,815 and the unrealized loss was included in financing costs (note 12).

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	September 30, 2020	March 31, 2020
Risk-free interest rate	0.3%	0.8%
Volatility*	52.3%	51.2%
Expected life	3.0 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	1,039	516	1,555
Unrealized foreign exchange gain		(1,358)	-	(1,358)
Payment		(463)	(209)	(672)
Currency translation adjustment		-	(1,245)	(1,245)
Balance of payable at September 30, 2020		21,552	16,969	38,521
Current		565	1,062	1,627
Non-Current		20,987	15,907	36,894
Balance of payable at September 30, 2020		21,552	16,969	38,521

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 September 30, 2020	Three Months		Six Months	
	Number of options \$	Weighted average exercise price \$	Number of options \$	Weighted average exercise price \$
Outstanding, beginning of period	246,351	5.21	246,351	5.21
Forfeited and expired	(5,024)	(5.83)	(5,024)	(5.83)
Outstanding, end of period	241,327	5.19	241,327	5.19
Exercisable, end of period	233,493	5.22	233,493	5.22

Restricted stock units (RSUs)

Periods ended September 30, 2020	Three Months		Six Months	
	Number of units \$	Weighted average exercise price \$	Number of units \$	Weighted average exercise price \$
Outstanding, beginning of period	1,121,756	0.01	1,289,407	0.01
Granted	49,365	0.01	49,365	0.01
Exercised	-	-	(2,151)	(0.01)
Forfeited and expired	-	-	(165,500)	(0.01)
Outstanding, end of period	1,171,121	0.01	1,171,121	0.01
Exercisable, end of period	208,638	0.01	208,638	0.01

Share-based compensation expense with respect to these options and RSUs amounted to \$424 (2019 – \$539) for the three-month period, and \$825 (2019 – \$1,087) for the nine-month period, ended September 30, 2020. These costs are included in selling and administrative expenses in the consolidated statement of income (loss) and comprehensive income (loss) (note 11).

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)

11 Selling and administrative expenses

Periods ended September 30	Three Months		Six Months	
	2020	2019	2020	2019
	\$	\$	\$	\$
Share-based compensation expense	424	539	825	1,087
Sales and marketing expense	5,114	6,475	10,827	12,767
Business development and regulatory affairs	1,982	1,283	3,965	2,397
General administrative	3,492	2,261	6,774	4,801
	11,012	10,558	22,391	21,052

12 Financing costs

Periods ended September 30	Three Months		Six Months	
	2020	2019	2020	2019
	\$	\$	\$	\$
Interest on convertible debentures	635	635	1,263	1,263
Interest accretion on convertible debentures, net of amort. of deferred financing costs	1,198	946	2,402	1,898
Interest on long-term debt, net of amort. of deferred financing costs	753	-	1,235	-
Interest accretion on balance of payable for business combination	654	421	1,555	1,014
Interest on lease liabilities	7	15	19	32
Interest expense	3,247	2,017	6,474	4,207
Convertible debentures – Unrealized loss (gain) on fair value of derivative	345	(4,320)	3,995	(5,030)
	3,592	(2,303)	10,469	(823)

13 Employee benefit expense

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

Periods ended September 30	Three Months		Six Months	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salaries and benefits	3,879	3,452	7,801	6,519
Share-based compensation	31	39	64	80
	3,910	3,491	7,865	6,599

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

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

Periods ended September 30	Three Months		Six Months	
	2020 \$	2019 \$	2020 \$	2019 \$
Key management compensation				
Salaries and benefits	818	874	1,930	2,052
Share-based compensation	393	500	761	1,007
	<u>1,211</u>	<u>1,374</u>	<u>2,691</u>	<u>3,059</u>

Key management compensation is included in selling and administrative expenses.

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 – \$85) for the three-month period, and \$196 (2019 – \$171) for the six-month period, ended September 30, 2020.
- b) Royalties paid on an exclusive licensing agreement with a significant shareholder of the Company totaled \$98 (2019 - \$103) for the three-month period, and \$213 (2019 – \$216) for the six-month period, ended September 30, 2020.
- c) Interest on convertible debentures which are owned or controlled, directly and indirectly, by two directors of the Company totaled \$92 (2019 – \$93) for the three-month period, and \$184 (2019 – \$184) for the six-month period, ended September 30, 2020.

15 Consolidated statements of cash flows

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

Periods ended September 30	Three Months		Six Months	
	2020 \$	2019 \$	2020 \$	2019 \$
Decrease (increase) in				
Accounts receivable	3,198	933	928	(3,555)
Inventories	422	(328)	111	138
Prepaid expenses	(1,436)	(1,300)	(135)	(1,098)
Increase (decrease) in				
Accounts payable and accrued liabilities	(4,035)	1,590	(2,562)	4,574
	<u>(1,851)</u>	<u>895</u>	<u>(1,658)</u>	<u>59</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	September 30, 2020 \$	March 31, 2020* \$
United States	84,984	93,536
Canada	22,934	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 September 30	Three Months		Six Months	
	2020 \$	2019 \$	2020 \$	2019 \$
United States	17,423	9,436	37,659	19,025
Canada	6,208	6,961	13,489	13,499

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.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

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

As at	September 30, 2020 \$	March 31, 2020 \$
Cash and cash equivalents		
US dollar	7,508	4,472
Euro	83	91
Accounts receivable		
US dollar	16,552	17,774
Accounts payable and accrued liabilities		
US dollar	(21,678)	(24,677)
Euro	(1,053)	(1,083)
Long-term debt		
US dollar	(27,085)	(28,144)
Balance of payable for business combination		
US dollar	(38,520)	(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 September 30, 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 September 30, 2020, did not enter into arrangements to hedge its currency risk exposure.

As at	September 30, 2020 \$	March 31, 2020 \$
10% strengthening of the CA\$:US\$ exchange rate		
Impact on net loss	2,122	2,342
Impact on other comprehensive income	4,204	4,740
Impact on comprehensive income	6,326	7,082
10% strengthening of the CA\$:EUR exchange rate		
Impact on comprehensive loss	97	99

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 September 30, 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.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

The Company is exposed to interest rate risk as follows:

Cash and cash equivalents	Floating rate
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
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.