

# **Medexus Pharmaceuticals Inc.**

Condensed Interim Consolidated  
Financial Statements  
(unaudited)

**For the three-month period ended  
June 30, 2021**  
(expressed in thousands of United States dollars)

# Medexus Pharmaceuticals Inc.

## Interim Consolidated Statements of Financial Position (unaudited)

**As at June 30, 2021 and March 31, 2021**

(expressed in thousands of United States dollars)

	Note	June 30, 2021 \$	March 31, 2021 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		10,199	18,704
Accounts receivable		17,037	18,829
Inventories		13,081	14,667
Prepays		6,167	4,706
Other current assets		1,402	1,665
		<b>47,886</b>	<b>58,571</b>
<b>Property and equipment</b>	3	1,407	795
<b>Intangible assets</b>	4	80,815	76,362
<b>Goodwill</b>	4	10,730	10,653
<b>Other long-term assets</b>		2,132	2,132
		<b>142,970</b>	<b>148,513</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		23,319	27,328
Interest payable		658	102
Income tax payable		514	514
Current portion of long-term debt	5	16,375	10,569
Balance of payable for business combination	7	1,433	1,424
		<b>42,299</b>	<b>39,937</b>
<b>Long-term debt</b>	5	8,832	9,397
<b>Convertible debentures – Host</b>	6	26,499	24,906
<b>Convertible debentures – Derivative</b>	6	20,855	23,726
<b>Balance of payable for business combination</b>	7	30,379	29,884
<b>Deferred tax liabilities</b>		2,633	2,645
		<b>131,497</b>	<b>130,495</b>
<b>Shareholders' Equity</b>			
<b>Share capital</b>		66,752	66,688
<b>Contributed surplus</b>		10,081	9,497
<b>Cumulative translation adjustment</b>		3,597	4,203
<b>Deficit</b>		(68,957)	(62,370)
		<b>11,473</b>	<b>18,018</b>
		<b>142,970</b>	<b>148,513</b>

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

# Medexus Pharmaceuticals Inc.

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

### Three-month periods ended June 30, 2021 and 2020

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

	Note	2021 \$	2020 \$
<b>Revenue</b>			
Products		17,267	19,997
<b>Cost of sales</b>			
Cost of sales of products		8,894	7,775
Amortization of product licences	4	1,449	1,346
		10,343	9,121
<b>Gross profit</b>		6,924	10,876
Selling and administrative expenses	10	11,725	8,267
Research and development expenses		2,231	645
Termination benefits		-	680
Depreciation and amortization	3,4	130	120
<b>Operating income (loss)</b>		(7,162)	1,164
Financing costs	11	2,884	2,329
Convertible debentures – Unrealized loss (gain) on fair value of derivative		(3,246)	2,636
Foreign exchange gain		(213)	(644)
<b>Loss before income taxes</b>		(6,587)	(3,157)
<b>Income tax expense</b>		-	272
<b>Net loss</b>		(6,587)	(3,429)
<b>Other comprehensive income</b>			
Foreign currency adjustment on translation of foreign operations		(606)	(829)
<b>Comprehensive loss</b>		(7,193)	(4,258)
<b>Net loss per share</b>			
Basic and Diluted		(0.34)	(0.24)
<b>Weighted average number of common shares outstanding</b>		19,169,223	14,452,275

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# Medexus Pharmaceuticals Inc.

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

### Three-month periods ended June 30, 2021 and 2020

(expressed in thousands of United States dollars except number of shares)

	Note	Share Capital		Contributed surplus \$	Cumulative translation adjustment \$	Deficit \$	Total shareholders' equity \$
		Common shares	Amount \$				
<b>Balance – March 31, 2020</b>		14,452,154	44,761	7,041	6,580	(34,106)	24,276
Net loss		-	-	-	-	(3,429)	(3,429)
Other comprehensive income		-	-	-	(829)	-	(829)
Treasury shares acquired and cancelled		-	-	4	-	-	4
Share-based compensation – Stock option plan	9	-	-	286	-	-	286
Share-based compensation – RSU plan	9	1,819	5	(6)	-	-	(1)
<b>Balance – June 30, 2020</b>		14,453,973	44,766	7,325	5,751	(37,535)	20,307
<b>Balance – March 31, 2021</b>		19,166,582	66,688	9,497	4,203	(62,370)	18,018
Net loss		-	-	-	-	(6,587)	(6,587)
Other comprehensive income		-	-	-	(606)	-	(606)
Share-based compensation – Stock option plan	9	-	-	287	-	-	287
Share-based compensation – RSU plan	9	-	-	303	-	-	303
Share-based compensation – PSU plan	9	-	-	81	-	-	81
Issuance of shares for settling of RSUs	9	10,431	64	(87)	-	-	(23)
<b>Balance – June 30, 2021</b>		19,177,013	66,752	10,081	3,597	(68,957)	11,473

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

# Medexus Pharmaceuticals Inc.

## Interim Consolidated Statements of Cash Flows

(unaudited)

### Three-month periods ended June 30, 2021 and 2020

(expressed in thousands of United States dollars)

	Note	2021 \$	2020 \$
<b>Operating activities</b>			
Net loss		(6,587)	(3,429)
Adjustments for			
Depreciation and amortization	3,4	130	121
Amortization of product licences	4	1,449	1,345
Share-based compensation expense	12	648	289
Interest expense	11	2,884	2,329
Convertible debentures – Unrealized loss (gain) on fair value of derivatives		(3,246)	2,636
Unrealized foreign exchange gain		(215)	(715)
Income tax expense		-	272
Changes in non-cash operating working capital items	14	(4,937)	2,848
Income taxes paid		(1,878)	146
		-	-
<b>Cash provided (used) by operating activities</b>		<b>(6,815)</b>	<b>2,994</b>
<b>Investing activities</b>			
Purchase of property and equipment		(32)	(17)
Purchase of intangible assets		(5,723)	-
Business acquisitions deferred payment		(132)	-
<b>Cash used by investing activities</b>		<b>(5,887)</b>	<b>(17)</b>
<b>Financing activities</b>			
Interest paid		(404)	(378)
Financing fees		-	(284)
Draw (repayment) of Asset-Based Loan, net		4,584	(53)
Repayment of lease liabilities		(91)	(103)
<b>Cash provided (used) by financing activities</b>		<b>4,089</b>	<b>(818)</b>
<b>Net change in cash and cash equivalents during the period</b>		<b>(8,613)</b>	<b>2,159</b>
Impact of foreign exchange on cash and cash equivalents		108	108
<b>Cash and cash equivalents – Beginning of period</b>		<b>18,704</b>	<b>5,233</b>
<b>Cash and cash equivalents – End of period</b>		<b>10,199</b>	<b>7,500</b>

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 United States dollars, except per share amounts and number of shares)

### **1 Incorporation and nature of activities**

Medexus Pharmaceuticals Inc. (the “Company”) is a rare disease 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 35 Nixon Road, Unit 1, Bolton, Ontario, L7E 1K1. The Company’s shares are traded on the TSX Exchange (TSX).

### **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, 2021.

These unaudited condensed consolidated interim financial statements are presented in United States dollars, which the Company has chosen as its presentation currency. The functional currency of the Parent Company is Canadian Dollars. The Company has subsidiaries that have the United States dollar as its functional currency. As the Company has operations in both Canada and the United States, the consolidated financial results may vary between periods due to the effect of foreign exchange fluctuations.

During 2021, the Company changed its presentation currency to United States dollars (“US\$”) from Canadian dollars (“C\$”). The Company applied the change in presentation currency retrospectively and restated the comparative financial information as if the presentation currency had always been US\$.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors of the Company on August 16, 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 June 30, 2021, MI Acquisitions, Inc., Medexus Pharma, Inc. (previously Medac Pharma, 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 Medexus Pharma, Inc. and does not carry on active business other than the ownership of 100% of the outstanding shares of Medexus Pharma, Inc.

# **Medexus Pharmaceuticals Inc.**

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

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

### **Global pandemic**

The Company is closely monitoring the developments of the Coronavirus (“COVID-19”) situation. The global response to the COVID-19 outbreak has resulted in, among other things, border closures, severe travel restrictions and extreme fluctuations in financial and commodity markets. Additional measures may be implemented by one or more governments in jurisdictions where the Company operates. Labour shortages due to illness, Company- or government-imposed isolation programs, or restrictions on the movement of personnel or possible supply chain disruptions could result in a reduction or cessation of all or a portion of the Company’s operations. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company’s business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of COVID-19 and the actions required to contain COVID-19 or remedy its impact, among others.

The actual and threatened spread of COVID-19 globally could also have a material adverse effect on the regional economies in which the Company operates, could negatively impact stock markets, including any future trading price of the Company’s shares, could adversely impact the Company’s ability to raise capital, could cause continued interest rate volatility and movements that could make obtaining financing or renegotiating the terms of the Company’s existing financing more challenging or more expensive.

### **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, 2021, 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.

# Medexus Pharmaceuticals Inc.

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

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

### 3 Property and equipment

	Office furniture & Computer equipment \$	Right-of- use lease assets \$	Total \$
Net book value at March 31, 2021	596	199	795
Additions	32	699	731
Depreciation	(42)	(87)	(129)
Currency translation adjustment	7	3	10
<b>Net book value at June 30, 2021</b>	<b>593</b>	<b>814</b>	<b>1,407</b>
<b>As at June 30, 2021</b>			
Cost	998	1,080	2,078
Accumulated depreciation	(405)	(266)	(671)
<b>Net book value</b>	<b>593</b>	<b>814</b>	<b>1,407</b>
<b>As at March 31, 2021</b>			
Cost	957	908	1,865
Accumulated depreciation	(361)	(709)	(1,070)
<b>Net book value</b>	<b>596</b>	<b>199</b>	<b>795</b>

### 4 Intangible assets and goodwill

	<u>Intangible assets subject to amortization</u>			Goodwill \$
	Licences \$	Software \$	Total \$	
Net book value at March 31, 2021	76,360	2	76,362	10,653
Additions	5,723	-	5,723	-
Amortization	(1,449)	(1)	(1,450)	-
Currency translation adjustment	180	-	180	77
<b>Net book value at June 30, 2021</b>	<b>80,814</b>	<b>1</b>	<b>80,815</b>	<b>10,730</b>
<b>As at June 30, 2021</b>				
Cost	93,236	5	93,241	10,730
Accumulated amortization	(12,422)	(4)	(12,426)	-
<b>Net book value</b>	<b>80,814</b>	<b>1</b>	<b>80,815</b>	<b>10,730</b>
<b>As at March 31, 2021</b>				
Cost	87,291	5	87,296	10,653
Accumulated amortization	(10,931)	(3)	(10,934)	-
<b>Net book value</b>	<b>76,360</b>	<b>2</b>	<b>76,362</b>	<b>10,653</b>

# Medexus Pharmaceuticals Inc.

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

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

### 5 Long-term debt

As at	Note	June 30, 2021 \$	March 31, 2021 \$
Credit facility	(a)	24,936	20,350
Deferred debt transaction costs		(551)	(596)
Lease liabilities		822	212
<b>Long-term debt</b>		<b>25,207</b>	19,966
Current		16,375	10,569
Non-current		8,832	9,397
<b>Long-term debt</b>		<b>25,207</b>	19,966

#### (a) Credit facility

	Term Loan \$	ABL \$	Total \$
<b>As at June 30, 2021</b>			
Outstanding	10,000	14,936	24,936
Remaining available	N/A	529	529
<b>Total credit facility</b>	<b>10,000</b>	<b>15,465</b>	<b>25,465</b>
<b>As at March 31, 2021</b>			
Outstanding	10,000	10,350	20,350
Remaining available	N/A	6,115	6,115
<b>Total credit facility</b>	<b>10,000</b>	<b>16,465</b>	<b>26,465</b>

#### Term Loan

On February 28, 2020, the Company entered into a definitive credit agreement with a syndicate of lenders agented by MidCap Financial Trust in respect of a \$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 March 31, 2021, \$10,000 of the Term Loan was outstanding with a weighted average interest rate of 8.00%.

On May 27, 2021, the Company entered into certain amendments, pursuant to which, an additional \$5,000 is available to be drawn by the Company, contingent upon certain conditions being satisfied, including the Company's obligation to make a payment to medac pursuant to the treosulfan License Agreement entered into on February 2, 2021. As at June 30, 2021, these conditions had not been satisfied.

# Medexus Pharmaceuticals Inc.

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

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

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 June 30, 2021, the Company was in compliance with these financial covenants and all of the terms and conditions of its long-term debt agreements.

### *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 \$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 \$20,000 revolving commitment (subject to the borrowing base) and an uncommitted \$10,000 accordion. An initial advance under the ABL Facility was used by the Company to repay \$10,000 of the principal amount outstanding under the Term Loan; this was treated as a non-cash transaction by the Company. The ABL Facility is included in the current portion of long term debt.

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 \$20,000 revolving commitment (subject to the borrowing base) and an uncommitted \$10,000 accordion. As at June 30, 2021, \$15,465 was available to the Company under the ABL Facility, of which \$14,936 was outstanding with a weighted average interest rate of 5.45%.

The terms and conditions of the ABL Facility 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 June 30, 2021, the Company was in compliance with these financial covenants and all of the terms and conditions of its long-term debt agreements.

## 6 Convertible debentures

<b>As at</b>	<b>June 30, 2021</b>	<b>March 31, 2021</b>
	<b>\$</b>	<b>\$</b>
Convertible debentures issued in October 2018	<b>27,448</b>	25,918
Embedded derivative on convertible debentures	<b>20,855</b>	23,726
Deferred financing transaction costs	<b>(949)</b>	(1,012)
	<b>47,354</b>	48,632
Current	-	-
Non-current	<b>47,354</b>	48,632
	<b>47,354</b>	48,632

# Medexus Pharmaceuticals Inc.

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

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

### 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 TSX, in common shares of the Company.

The Convertible Debentures are convertible, at the holders option, into Conversion Units consisting of one common share and one half of one Offering Warrant per Conversion Unit.

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.

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

As at	June 30, 2021	March 31, 2021
Risk-free interest rate	0.5%	0.5%
Volatility*	57.4%	55.7%
Expected life	2.25 yrs	2.5 yrs

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

The table below shows the immediate increase (decrease) that a 250 basis point change in the assumed volatility rate used in the valuation model would have on the embedded derivative balance. This changes in fair value recorded would result in an increase (decrease) to net loss and other comprehensive loss.

As at	June 30, 2021	March 31, 2021
	\$	\$
250 basis point increase to the assumed volatility rate Increase to fair value of the embedded derivative	786	837
250 basis point decrease to the assumed volatility rate Decrease to fair value of the embedded derivative	(790)	(849)

## Medexus Pharmaceuticals Inc.

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

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

#### 7 Balance of payable for business combination

	Note	Medac \$	Aptevo \$	Total \$
Net book value at March 31, 2021		18,508	12,800	31,308
Interest accretion	11	437	201	638
Payment		-	(132)	(132)
Unrealized foreign exchange gain		(261)	-	(261)
Currency translation adjustment		259	-	259
<b>Balance of payable at June 30, 2021</b>		<b>18,943</b>	<b>12,869</b>	<b>31,812</b>
Current		638	795	1,433
Non-Current		18,305	12,074	30,379
<b>Balance of payable at June 30, 2021</b>		<b>18,943</b>	<b>12,869</b>	<b>31,812</b>

#### 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.

#### 8 Share capital

##### Authorized and issued

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

# Medexus Pharmaceuticals Inc.

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

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

### 9 Share-based compensation

#### Stock options

	Number of options	Weighted average exercise price C\$
<b>For the three-month period ended June 30, 2021</b>		
Outstanding, beginning of period	424,675	5.06
Granted	258,096	7.45
Forfeited	(3,000)	(7.63)
	<u>679,771</u>	<u>5.96</u>
Outstanding, end of period	<u>679,771</u>	<u>5.96</u>
Exercisable, end of period	<u>310,678</u>	<u>5.43</u>

#### Restricted stock units (RSUs)

	Number of units	Weighted average exercise price C\$
<b>For the three-month period ended June 30, 2021</b>		
Outstanding, beginning of period	1,088,137	0.01
Granted	13,518	0.01
Exercised	(14,393)	(0.01)
	<u>1,087,262</u>	<u>0.01</u>
Outstanding, end of period	<u>1,087,262</u>	<u>0.01</u>
Exercisable, end of period	<u>424,628</u>	<u>0.01</u>

#### Performance stock units (PSUs)

	Number of units	Weighted average exercise price C\$
<b>For the three-month period ended June 30, 2021</b>		
Outstanding, beginning of period	72,999	0.01
Granted	129,048	0.01
Forfeited	(1,500)	(0.01)
	<u>200,547</u>	<u>0.01</u>
Outstanding, end of period	<u>200,547</u>	<u>0.01</u>
Exercisable, end of period	<u>-</u>	<u>-</u>

# Medexus Pharmaceuticals Inc.

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

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

In estimating the share-based compensation expense for options granted to directors, officers, employees and consultants, the Company uses the Black-Scholes option-pricing model. The assumptions used for options granted were as follows:

	<b>2021</b>
Risk-free interest rate	1.4%-1.5%
Volatility*	54%
Expected life	10 yrs
Expected dividend yield	NIL

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

For the three-month period ended June 30, 2021, the share-based compensation expense with respect to these options, RSUs and PSUs amounted to \$671 (2020 – \$290). These costs are included in selling and administrative expenses in the consolidated statement of loss and comprehensive loss (note 10).

### 10 Selling and administrative expenses

<b>For the three-month periods ended June 30</b>	<b>Note</b>	<b>2021</b>	<b>2020*</b>
		<b>\$</b>	<b>\$</b>
Employee benefit expense	12	<b>5,166</b>	3,924
Sales and marketing expense		<b>3,340</b>	2,039
Regulatory and business development		<b>1,072</b>	1,116
General administrative		<b>2,147</b>	1,188
		<hr/> <b>11,725</b>	<hr/> 8,267

\*Prior period amount has been adjusted to the current period presentation. Presentation has been adjusted to more clearly present employee related expenses and other selling and administrative expenses.

### 11 Financing costs

<b>For the three-month periods ended June 30</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Interest on convertible debentures	<b>505</b>	453
Interest accretion on convertible debentures, net of amort. of deferred financing costs	<b>1,235</b>	869
Interest on long-term debt, net of amort. of deferred financing costs	<b>503</b>	348
Interest accretion on balance of payable for business combination	<b>638</b>	650
Interest on lease liabilities	<b>3</b>	9
<b>Interest expense</b>	<hr/> <b>2,884</b>	<hr/> 2,329

# Medexus Pharmaceuticals Inc.

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

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

### 12 Employee benefit expense

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

<b>For the three-month periods ended June 30</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Salaries and benefits	3,285	2,831
Share-based compensation	245	24
	<u>3,530</u>	<u>2,855</u>

- 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.

<b>For the three-month periods ended June 30</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Key management compensation</b>		
Salaries and benefits	1,210	803
Share-based compensation	426	266
	<u>1,636</u>	<u>1,069</u>

### 13 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 \$70 (2020 - \$83) for the three-month period ended June 30, 2021.
- b) Royalties paid on an exclusive licensing agreement with a significant shareholder of the Company totaled \$80 (2020 - \$83) for the three-month period ended June 30, 2021.
- c) Interest on convertible debentures which are owned or controlled, directly and indirectly, by two directors of the Company totaled \$75 (2020 - \$66) for the three-month period ended June 30, 2021.

# Medexus Pharmaceuticals Inc.

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

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

### 14 Consolidated statements of cash flows

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

<b>For the three-month periods ended June 30</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Decrease (increase) in		
Accounts receivable	1,828	(1,637)
Inventories	1,665	(224)
Prepaid expenses	(1,457)	941
Other current assets	293	-
Increase (decrease) in		
Accounts payable and accrued liabilities	(4,207)	1,066
	<u>(1,878)</u>	<u>146</u>

### 15 Geographic information

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

<b>As at</b>	<b>June 30, 2021</b>	<b>March 31, 2021</b>
	<b>\$</b>	<b>\$</b>
United States	76,446	71,854
Canada	18,638	18,088

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

<b>For the three-month periods ended June 30</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
United States	10,618	14,741
Canada	6,649	5,256

# Medexus Pharmaceuticals Inc.

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

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

### 16 Financial instruments

#### Fair value estimation

The Company measures the fair value of its financial assets and financial liabilities using a fair value hierarchy. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value. The different levels of the fair value hierarchy are defined as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Company estimated the fair value of its financial instruments as described below.

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are considered to be equal to their respective carrying values due to their short-term maturities.

As at June 30, 2021 and 2020, other financial instruments measured at fair value in the consolidated statements of financial position were as follows:

	<u>June 30, 2021</u>		<u>March 31, 2021</u>	
	<u>Fair value hierarchy</u>	<u>Fair value</u> \$	<u>Fair value hierarchy</u>	<u>Fair value</u> \$
<b>Financial liabilities</b>				
Convertible debentures – Derivative	Level 2	<b>20,855</b>	Level 2	23,726
Balance of payable for business combinations	Level 3	<b>31,812</b>	Level 3	31,308