

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated
Financial Statements
(unaudited)

**For the three- and six-month periods ended
September 30, 2021**
(expressed in thousands of United States dollars)

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Financial Position (unaudited)

As at September 30, 2021 and March 31, 2021

(expressed in thousands of United States dollars)

	Note	September 30, 2021 \$	March 31, 2021 \$
Assets			
Current assets			
Cash and cash equivalents		8,137	18,704
Accounts receivable		14,083	18,829
Inventories		14,408	14,667
Prepays		5,946	4,706
Other current assets		1,344	1,665
		43,918	58,571
Property and equipment	3	1,336	795
Intangible assets	4	79,268	76,362
Goodwill	4	10,585	10,653
Other long-term assets		2,103	2,132
		137,210	148,513
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		26,926	27,328
Income tax payable		-	514
Current portion of long-term debt	5	12,860	10,569
Balance of payable for business combination	7	642	1,424
Other current liabilities		2,647	102
		43,075	39,937
Long-term debt	5	7,564	9,397
Convertible debentures – Host	6	26,968	24,906
Convertible debentures – Derivative	6	4,352	23,726
Balance of payable for business combination	7	31,255	29,884
Deferred tax liabilities		6	2,645
		113,220	130,495
Shareholders' Equity			
Share capital		67,776	66,688
Contributed surplus		10,696	9,497
Cumulative translation adjustment		4,330	4,203
Deficit		(58,812)	(62,370)
		23,990	18,018
		137,210	148,513

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, 2021 and 2020

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

Periods ended September 30	Note	Three Months		Six Months	
		2021 \$	2020 \$	2021 \$	2020 \$
Revenue					
Products		17,901	17,768	35,168	37,765
Cost of sales					
Cost of sales of products		7,050	6,752	15,944	14,527
Amortization of product licences	4	1,463	1,357	2,912	2,703
		8,513	8,109	18,856	17,230
Gross profit		9,388	9,659	16,312	20,535
Selling and administrative expenses	10	11,736	8,274	23,461	16,541
Research and development expenses		1,773	780	4,004	1,425
Termination benefits		784	-	784	680
Depreciation and amortization	3,4	86	123	216	243
Operating income (loss)		(4,991)	482	(12,153)	1,646
Financing costs	11	3,072	2,440	5,956	4,769
Convertible debentures – Unrealized loss (gain) on fair value of derivative		(16,280)	304	(19,526)	2,940
Foreign exchange loss (gain)		597	(427)	384	(1,071)
Income (loss) before income taxes		7,620	(1,835)	1,033	(4,992)
Income tax recovery					
Current		125	(273)	125	(1)
Deferred		(2,650)	-	(2,650)	-
		(2,525)	(273)	(2,525)	(1)
Net income (loss)		10,145	(1,562)	3,558	(4,991)
Other comprehensive income (loss)					
Foreign currency income (loss) on translation of foreign operations		733	(405)	127	(1,234)
Comprehensive income (loss)		10,878	(1,967)	3,685	(6,225)
Net income (loss) per share					
Basic		0.53	(0.11)	0.19	(0.35)
Diluted		0.52	(0.11)	0.18	(0.35)
Weighted average number of common shares outstanding		19,179,575	14,453,973	19,174,427	14,453,133

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, 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 \$				
Balance – March 31, 2020		14,452,154	44,761	7,041	6,580	(34,106)	24,276
Net loss		-	-	-	-	(4,991)	(4,991)
Other comprehensive loss		-	-	-	(1,234)	-	(1,234)
Share-based compensation – Stock option plan	9	-	-	5	-	-	5
Share-based compensation – RSU plan	9	-	-	602	-	-	602
Issuance of shares for settling of RSUs		1,819	5	(6)	-	-	(1)
Balance – September 30, 2020		14,453,973	44,766	7,642	5,346	(39,097)	18,657
Balance – March 31, 2021		19,166,582	66,688	9,497	4,203	(62,370)	18,018
Net Income		-	-	-	-	3,558	3,558
Other comprehensive income		-	-	-	127	-	127
Share-based compensation – Stock option plan	9	-	-	558	-	-	558
Share-based compensation – RSU plan	9	-	-	675	-	-	675
Share-based compensation – PSU plan	9	-	-	80	-	-	80
Issuance of shares for settling of RSUs	9	16,409	86	(114)	-	-	(28)
Payment of interest on convertible debentures – settled in shares		387,081	1,002	-	-	-	1,002
Balance – September 30, 2021		19,570,072	67,776	10,696	4,330	(58,812)	23,990

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, 2021 and 2020

(expressed in thousands of United States dollars)

Periods ended September 30	Note	Three Months		Six Months	
		2021 \$	2020 \$	2021 \$	2020 \$
Operating activities					
Net income (loss)		10,145	(1,562)	3,558	(4,991)
Adjustments for					
Depreciation and amortization	3,4	86	122	216	243
Amortization of product licences	4	1,463	1,358	2,912	2,703
Share-based compensation expense	9	637	318	1,285	607
Interest expense	11	3,072	2,440	5,956	4,769
Convertible debentures – Unrealized loss (gain) on fair value of derivative	11	(16,280)	304	(19,526)	2,940
Unrealized foreign exchange loss (gain)		597	(472)	382	(1,187)
Income tax expense (recovery)		(2,525)	(273)	(2,525)	(1)
		(2,805)	2,235	(7,742)	5,083
Changes in non-cash operating working capital items	14	7,015	(1,366)	5,137	(1,220)
Income taxes paid		(639)	(846)	(639)	(846)
Cash provided (used) by operating activities		3,571	23	(3,244)	3,017
Investing activities					
Purchases of property and equipment		(38)	(50)	(70)	(67)
Purchases of intangible assets		-	-	(5,723)	-
Business acquisition deferred payment		(81)	(495)	(213)	(495)
Cash used by investing activities		(119)	(545)	(6,006)	(562)
Financing activities					
Interest paid		(532)	(1,342)	(936)	(1,720)
Financing fees		-	-	-	(284)
Draw (repayment) of Asset-Based Loan, net		(4,823)	885	(239)	832
Repayment of lease liabilities		(8)	(88)	(99)	(191)
Cash used by financing activities		(5,363)	(545)	(1,274)	(1,363)
Net change in cash and cash equivalents during the period		(1,911)	(1,067)	(10,524)	1,092
Impact of foreign exchange on cash and cash equivalents		(151)	(7)	(43)	101
Cash and cash equivalents – Beginning of period		10,199	7,500	18,704	5,233
Cash and cash equivalents – End of period		8,137	6,426	8,137	6,426

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 November 10, 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 September 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 above.

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	70	699	769
Depreciation	(84)	(131)	(215)
Currency translation adjustment	(8)	(5)	(13)
Net book value at September 30, 2021	574	762	1,336
As at September 30, 2021			
Cost	1,018	1,070	2,088
Accumulated depreciation	(444)	(308)	(752)
Net book value	574	762	1,336
As at March 31, 2021			
Cost	957	908	1,865
Accumulated depreciation	(361)	(709)	(1,070)
Net book value	596	199	795

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	5,976	-	5,976	-
Amortization	(2,912)	(1)	(2,913)	-
Currency translation adjustment	(157)	-	(157)	(68)
Net book value at September 30, 2021	79,267	1	79,268	10,585
As at September 30, 2021				
Cost	93,033	5	93,038	10,585
Accumulated amortization	(13,766)	(4)	(13,770)	-
Net book value	79,267	1	79,268	10,585
As at March 31, 2021				
Cost	87,291	5	87,296	10,653
Accumulated amortization	(10,931)	(3)	(10,934)	-
Net book value	76,360	2	76,362	10,653

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	September 30, 2021 \$	March 31, 2021 \$
Credit facility	(a)	20,113	20,350
Deferred debt transaction costs		(499)	(596)
Lease liabilities		810	212
Long-term debt		20,424	19,966
Current		12,860	10,569
Non-current		7,564	9,397
Long-term debt		20,424	19,966

(a) Credit facility

	Term Loan \$	ABL \$	Total \$
As at September 30, 2021			
Outstanding	10,000	10,113	20,113
Remaining available	N/A	1,478	1,478
Total credit facility	10,000	11,591	21,591
As at March 31, 2021			
Outstanding	10,000	10,350	20,350
Remaining available	N/A	6,115	6,115
Total credit facility	10,000	16,465	26,465

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 September 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 September 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 September 30, 2021, \$11,591 was available to the Company under the ABL Facility, of which \$10,113 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 September 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

As at	September 30, 2021 \$	March 31, 2021 \$
Convertible debentures issued in October 2018	27,815	25,918
Embedded derivative on convertible debentures	4,352	23,726
Deferred financing transaction costs	(847)	(1,012)
	<u>31,320</u>	<u>48,632</u>
Current	-	-
Non-current	<u>31,320</u>	<u>48,632</u>
	<u>31,320</u>	<u>48,632</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)

Convertible debentures issued in October 2018

The 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	September 30, 2021	March 31, 2021
Risk-free interest rate	0.5%	0.5%
Volatility*	74.1%	55.7%
Expected life	2.0 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	September 30, 2021	March 31, 2021
	\$	\$
250 basis point increase to the assumed volatility rate Increase to fair value of the embedded derivative	334	837
250 basis point decrease to the assumed volatility rate Decrease to fair value of the embedded derivative	(345)	(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	1,026	407	1,433
Payment		(620)	(213)	(833)
Unrealized foreign exchange gain		263	-	263
Currency translation adjustment		(274)	-	(274)
Balance of payable at September 30, 2021		18,903	12,994	31,812
Current		-	642	642
Non-Current		18,903	12,352	31,255
Balance of payable at September 30, 2021		18,903	12,994	31,897

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	Three Months		Six Months	
	Number of options	Weighted average exercise price C\$	Number of options	Weighted average exercise price C\$
Periods ended September 30, 2021				
Outstanding, beginning of period	679,771	5.96	424,675	5.06
Granted	179,577	3.30	437,673	5.75
Forfeited	(9,100)	(7.63)	(12,100)	(7.63)
Outstanding, end of period	850,248	5.38	850,248	5.38
Exercisable, end of period	385,860	5.46	385,860	5.46
 Restricted stock units (RSUs)				
	Three Months		Six Months	
	Number of units	Weighted average exercise price C\$	Number of units	Weighted average exercise price C\$
Periods ended September 30, 2021				
Outstanding, beginning of period	1,087,262	0.01	1,088,137	0.01
Granted	80,753	0.01	94,271	0.01
Exercised	(7,520)	(0.01)	(21,913)	(0.01)
Forfeited	(5,000)	(0.01)	(5,000)	(0.01)
Outstanding, end of period	1,155,495	0.01	1,155,495	0.01
Exercisable, end of period	564,271	0.01	564,271	0.01
 Performance stock units (PSUs)				
	Three Months		Six Months	
	Number of units	Weighted average exercise price C\$	Number of units	Weighted average exercise price C\$
Periods ended September 30, 2021				
Outstanding, beginning of period	200,547	0.01	72,999	0.01
Granted	24,000	0.01	153,048	0.01
Forfeited	(4,550)	(0.01)	(6,050)	(0.01)
Outstanding, end of period	219,997	0.01	219,997	0.01
Exercisable, end of 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)

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:

	2021
Risk-free interest rate	1.2%-1.5%
Volatility*	53%-54%
Expected life	10 yrs
Expected dividend yield	NIL

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

Share-based compensation expense with respect to these options, RSUs and PSUs amounted to \$642 (2020 – \$317) for the three-month period, and \$1,313 (2020 – 607) for the six-month period, ended September 30, 2021. These costs are included in selling and administrative expenses in the consolidated statement of loss and comprehensive loss.

10 Selling and administrative expenses

Periods ended September 30	Note	Three Months		Six Months	
		2021	2020*	2021	2020*
		\$	\$	\$	\$
Employee benefit expense	12	5,691	3,970	10,857	7,894
Sales and marketing expense		2,356	2,112	5,696	4,151
Regulatory and business development		1,324	1,174	2,396	2,290
General administrative		2,365	1,018	4,512	2,206
		11,736	8,274	23,461	16,541

*Prior period amounts have 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

Periods ended September 30	Three Months		Six Months	
	2021	2020	2021	2020
	\$	\$	\$	\$
Interest on convertible debentures	497	477	1,002	930
Interest accretion on convertible debentures, net of amort. of deferred financing costs	1,210	900	2,445	1,769
Interest on long-term debt, net of amort. of deferred financing costs	557	562	1,060	910
Interest accretion on balance of payable for business combination	795	496	1,433	1,146
Interest on lease liabilities	13	5	16	14
Interest expense	3,072	2,440	5,956	4,769

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)

Periods ended September 30	Three Months		Six Months	
	2021 \$	2020 \$	2021 \$	2020 \$
Salaries and benefits	3,738	3,004	7,023	5,835
Share-based compensation	77	23	322	47
	<u>3,815</u>	<u>3,027</u>	<u>7,345</u>	<u>5,882</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.

Periods ended September 30	Three Months		Six Months	
	2021 \$	2020 \$	2021 \$	2020 \$
Key management compensation				
Salaries and benefits	1,311	649	2,521	1,452
Share-based compensation	565	294	991	560
	<u>1,876</u>	<u>943</u>	<u>3,512</u>	<u>2,012</u>

Key management compensation is included in selling and administrative expenses.

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 \$67 (2020 – \$62) for the three-month period, and \$137 (2020 – \$145) for the six-month period, ended September 30, 2021.
- b) Royalties paid on an exclusive licensing agreement with a significant shareholder of the Company totaled \$112 (2020 - \$74) for the three-month period, and \$192 (2020 – \$157) for the six-month period, ended September 30, 2021.
- c) Interest on convertible debentures which are owned or controlled, directly and indirectly, by three directors of the Company totaled \$72 (2020 – \$70) for the three-month period, and \$147 (2020 – \$136) for the six-month period, ended September 30, 2021.

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14 Consolidated statements of cash flows

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

Periods ended September 30	Three Months		Six Months	
	2021 \$	2020 \$	2021 \$	2020 \$
Decrease (increase) in				
Accounts receivable	2,869	2,320	4,697	683
Inventories	(1,454)	306	211	82
Prepaid expenses	194	(1,040)	(1,263)	(99)
Other current assets	(6)	-	287	-
Increase in				
Accounts payable and accrued liabilities	5,412	(2,952)	1,205	(1,886)
	7,015	(1,366)	5,137	(1,220)

15 Geographic information

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

As at	September 30, 2021 \$	March 31, 2021 \$
United States	75,351	71,854
Canada	17,941	18,088

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

Periods ended September 30	Three Months		Six Months	
	2021 \$	2020 \$	2021 \$	2020 \$
United States	11,238	13,064	21,856	27,805
Canada	6,663	4,704	13,312	9,960

16 Global exclusive licencing agreement

On September 19, 2016, the Company signed an exclusive licensing agreement ("the licensing agreement") with 9346-4626 Québec Inc., a significant shareholder of the Company, for the drug Relaxa ("the product").

Under the terms of the licensing agreement, the Company has the exclusive right to manufacture, promote, market, sell and distribute the product globally. In return, the Company will pay the licensor royalties based on annual net sales of the product.

Pursuant to the original terms of the licensing agreement, the Company had the right to acquire the product at any time until the seventh anniversary of the effective date of the licensing agreement. The aggregate price payable for the product during such term would be C\$5,000 plus a 2% royalty on the annual net sales of the

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product up to a maximum of C\$1,500 (the option exercise price). Moreover, for the term commencing on the fifth anniversary of the effective date of the licensing agreement and ending on the seventh anniversary of the effective date of the licensing agreement, the licensor would have had the option to sell the product to the Company for the same option exercise price.

On September 29, 2021, the Company and 9346-4626 Québec Inc. signed an amendment giving the Company the right to acquire the product at any time until the tenth anniversary of the effective date of the licensing agreement, and deferring the licensor's option to sell the product to the Company until the eighth anniversary of the effective date of the licensing agreement and ending on the tenth anniversary of the effective date of the licensing agreement. There was no change to the aggregate price payable.

17 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 September 30, 2021 and March 31, 2021, other financial instruments measured at fair value in the consolidated statements of financial position were as follows:

	<u>September 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>
Financial liabilities				
Convertible debentures – Derivative	Level 2	4,352	Level 2	23,726
Balance of payable for business combinations	Level 3	31,897	Level 3	31,308

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Liquidity Risk

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with liabilities and other payment obligations. Liquidity risk is managed by maintaining adequate reserves and banking facilities and by closely monitoring forecast and actual cash flows. The Company is exposed to this risk mainly in respect of its accounts payable and accrued liabilities, long-term debt, convertible debentures, balance of payable for business combination and funds needed for launch of new products.

Failure to generate sufficient cash flows from operations or raise additional capital could have an adverse effect on the Company's ability to achieve business objectives, including its ability to: make regulatory milestone payments if and when they become due; to carry on the development and commercialization of existing products and to secure new business opportunities and product registrations or clinical development programs; to prevent or mitigate delays or problems in the supply of products; and to comply with manufacturing regulations.

Other sources of funding for the Company have been the issuance of equity securities through public offerings and debt financing. Despite previous success in acquiring these sources of capital, there is no guarantee of obtaining future funding.