Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated
Financial Statements
(unaudited)

For the three- and nine-month periods ended
December 31, 2021
(expressed in thousands of United States dollars)

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Financial Position
(unaudited)

As at December 31, 2021 and March 31, 2021

(expressed in thousands of United States dollars)

	Note	December 31, 2021 $	March 31, 2021 $
Assets			
Current assets			
Cash and cash equivalents		**9,571**	18,704
Accounts receivable		**14,689**	18,829
Inventories		**16,176**	14,667
Prepaids		**4,648**	4,706
Other current assets		**1,511**	1,665
		46,595	58,571
Property and equipment	3	**1,252**	795
Intangible assets	4	**77,927**	76,362
Goodwill	4	**10,611**	10,653
Other long-term assets		**1,746**	2,132
		138,131	148,513
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**24,307**	27,328
Income tax payable		**-**	514
Current portion of long-term debt	5	**18,231**	10,569
Balance of payable for business combination	7	**969**	1,424
Other current liabilities		**3,132**	102
		46,639	39,937
Long-term debt	5	**6,317**	9,397
Convertible debentures – Host	6	**28,449**	24,906
Convertible debentures – Derivative	6	**2,083**	23,726
Balance of payable for business combination	7	**31,501**	29,884
Deferred tax liabilities		**-**	2,645
		114,989	130,495
Shareholders' Equity			
Share capital		**68,668**	66,688
Contributed surplus		**10,135**	9,497
Cumulative translation adjustment		**4,301**	4,203
Deficit		**(59,962)**	(62,370)
		23,142	18,018
		138,131	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 nine-month periods ended December 31, 2021 and 2020

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

		Three Months		Nine Months	
Periods ended December 31	**Note**	**2021**	2020	**2021**	2020
		$	$	**$**	$
Revenue					
Products		**21,270**	24,256	**56,438**	62,021
Cost of sales					
Cost of sales of products		**8,362**	10,222	**24,306**	24,749
Amortization of product licences	4	**1,407**	1,377	**4,319**	4,080
		9,769	11,599	**28,625**	28,829
Gross profit		**11,501**	12,657	**27,813**	33,192
Selling and administrative expenses	10	**10,679**	9,379	**34,140**	25,920
Research and development expenses		**1,035**	1,155	**5,039**	2,580
Transaction-related fees & expenses		**33**	448	**33**	448
Termination benefits		**-**	-	**784**	680
Depreciation and amortization	3,4	**93**	131	**309**	374
Operating income (loss)		**(339)**	1,544	**(12,492)**	3,190
Financing costs	11	**3,160**	2,500	**9,116**	7,269
Convertible debentures – Unrealized loss (gain) on fair value of derivative		**(2,239)**	12,366	**(21,765)**	15,306
Foreign exchange loss (gain)		**(16)**	(898)	**368**	(1,969)
Loss before income taxes		**(1,244)**	(12,424)	**(211)**	(17,416)
Income tax expense (recovery)					
Current		**-**	359	**125**	358
Deferred		**(94)**	-	**(2,744)**	-
		(94)	359	**(2,619)**	358
Net income (loss)		**(1,150)**	(12,783)	**2,408**	(17,774)
Other comprehensive income (loss)					
Foreign currency income (loss) on translation of foreign operations		**(29)**	(1,798)	**98**	(3,032)
Comprehensive income (loss)		**(1,179)**	(14,581)	**2,506**	(20,806)
Net income (loss) per share					
Basic		**(0.07)**	(0.88)	**0.12**	(1.23)
Diluted		**(0.07)**	(0.88)	**0.11**	(1.23)
Weighted average number of common shares outstanding		**19,734,673**	14,461,250	**19,361,863**	14,455,859

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

Medexus Pharmaceuticals Inc.

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

Nine-month periods ended December 31, 2021 and 2020

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

		Share Capital					
	Note	Common shares	Amount $	Contributed surplus $	Cumulative translation adjustment $	Deficit $	Total shareholders' equity $
Balance – March 31, 2020		14,452,154	44,761	7,041	6,580	(34,106)	24,276
Net loss		-	-	-	-	(17,774)	(17,774)
Other comprehensive loss		-	-	-	(3,032)	-	(3,032)
Share-based compensation – Stock option plan	9	-	-	90	-	-	90
Share-based compensation – RSU plan	9	-	-	916	-	-	916
Share-based compensation – PSU plan	9	-	-	16	-	-	16
Issuance of shares for settling of RSUs		57,608	280	(460)	-	-	(180)
Balance – December 31, 2020		14,509,762	45,041	7,603	3,548	(51,880)	4,312
Balance – March 31, 2021		19,166,582	66,688	9,497	4,203	(62,370)	18,018
Net Income		**-**	**-**	**-**	**-**	**2,408**	**2,408**
Other comprehensive income		**-**	**-**	**-**	**98**	**-**	**98**
Share-based compensation – Stock option plan	9	**-**	**-**	**710**	**-**	**-**	**710**
Share-based compensation – RSU plan	9	**-**	**-**	**1,188**	**-**	**-**	**1,188**
Share-based compensation – PSU plan	9	**-**	**-**	**137**	**-**	**-**	**137**
Issuance of shares for settling of RSUs	9	**391,240**	**978**	**(1,397)**	**-**	**-**	**(419)**
Payment of interest on convertible debentures – settled in shares		**387,081**	**1,002**	**-**	**-**	**-**	**1,002**
Balance – December 31, 2021		**19,944,903**	**68,668**	**10,135**	**4,301**	**(59,962)**	**23,142**

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

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Cash Flows

(unaudited)

Three- and nine-month periods ended December 31, 2021 and 2020

(expressed in thousands of United States dollars)

		Three Months		Nine Months	
Periods ended December 31	**Note**	**2021**	2020	**2021**	2020
		$	$	**$**	$
Operating activities					
Net income (loss)		**(1,150)**	(12,783)	**2,408**	(17,774)
Adjustments for					
Depreciation and amortization	3,4	**93**	131	**309**	374
Amortization of product licences	4	**1,407**	1,377	**4,319**	4,080
Share-based compensation expense	9	**331**	235	**1,616**	842
Interest expense	11	**3,160**	2,500	**9,116**	7,269
Convertible debentures – Unrealized loss (gain) on fair value of derivative	11	**(2,239)**	12,366	**(21,765)**	15,306
Unrealized foreign exchange loss (gain)		**(22)**	(856)	**360**	(2,043)
Income tax expense (recovery)		**(94)**	359	**(2,619)**	358
		1,486	3,329	**(6,256)**	8,412
Changes in non-cash operating working capital items	14	**(3,204)**	(5,511)	**1,933**	(6,731)
Income taxes paid		**-**	-	**(639)**	(846)
Cash used by operating activities		**(1,718)**	(2,182)	**(4,962)**	835
Investing activities					
Purchases of property and equipment		**(9)**	(9)	**(79)**	(76)
Purchases of intangible assets		**(253)**	(630)	**(5,976)**	(630)
Business acquisition deferred payment		**(91)**	(113)	**(304)**	(608)
Cash used by investing activities		**(353)**	(752)	**(6,359)**	(1,314)
Financing activities					
Interest paid*		**(599)**	(465)	**(1,535)**	(2,185)
Financing fees		**-**	-	**-**	(284)
Draw of Asset-Based Loan, net		**4,085**	6,296	**3,846**	7,128
Repayment of lease liabilities		**(9)**	(88)	**(108)**	(279)
Cash provided by financing activities		**3,477**	5,743	**2,203**	4,380
Net change in cash and cash equivalents during the period		**1,406**	2,809	**(9,118)**	3,901
Impact of foreign exchange on cash and cash equivalents		**28**	130	**(15)**	231
Cash and cash equivalents – Beginning of period		**8,137**	6,426	**18,704**	5,233
Cash and cash equivalents – End of period		**9,571**	9,365	**9,571**	9,365

*The Company elected to settle the September 30, 2021, interest payment of $1,002 on its convertible debentures in common shares.

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

(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).

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.

The Company incurred operating losses and negative cash flow from operating activities in the nine-month period ended December 31, 2021, due to investments in research and development and commercialization expenses along with payment of non-refundable regulatory milestones. Failure to generate sufficient cash flows or raise additional capital could have an adverse effect on the Company's ability to achieve business objectives, including its ability to:

- make regulator milestone payments if and when they become due;
- continue the development and commercialization of existing products;
- prevent or mitigate delays or problems in the supply of products;
- comply with manufacturing regulations; and/or
- secure new business opportunities and product registrations or clinical development programs.

In the next 12 months the Company anticipates a significant milestone payment of between $15,000 and $45,000 dependent on the FDA's approval of a license, for which the Company would need additional capital to maintain its exclusive license and distribution rights of treosulfan in the United States. Sources of funding historically for the Company have been the issuance of equity securities through public offerings and debt financing. Management will pursue such additional sources of funding when required, and while management has been successful in securing funding in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company.

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 February 9, 2022.

Basis of consolidation

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies to obtain benefits from its activities. Subsidiaries are fully consolidated from the date control is obtained, and they are deconsolidated on the date control ceases. These consolidated financial statements include the Company's subsidiaries. As at December 31, 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.

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.

(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	**79**	**699**	**778**
Depreciation	**(129)**	**(179)**	**(308)**
Currency translation adjustment	**(9)**	**(4)**	**(13)**
Net book value at December 31, 2021	**537**	**715**	**1,252**
As at December 31, 2021			
Cost	**1,029**	**1,073**	**2,102**
Accumulated depreciation	**(492)**	**(358)**	**(850)**
Net book value	**537**	**715**	**1,252**
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

	Intangible assets subject to amortization			
	Licences $	Software $	Total $	Goodwill $
Net book value at March 31, 2021	76,360	2	76,362	10,653
Additions	**5,976**	**-**	**5,976**	**-**
Amortization	**(4,319)**	**(1)**	**(4,320)**	**-**
Currency translation adjustment	**(91)**	**-**	**(91)**	**(42)**
Net book value at December 31, 2021	**77,926**	**1**	**77,927**	**10,611**
As at December 31, 2021				
Cost	**93,119**	**5**	**93,124**	**10,611**
Accumulated amortization	**(15,193)**	**(4)**	**(15,197)**	**-**
Net book value	**77,926**	**1**	**77,927**	**10,611**
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

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

5 Long-term debt

As at	Note	December 31, 2021 $	March 31, 2021 $
Credit facility	(a)	**24,198**	20,350
Deferred debt transaction costs		**(451)**	(596)
Lease liabilities		**801**	212
Long-term debt		**24,548**	19,966
Current		**18,231**	10,569
Non-current		**6,317**	9,397
Long-term debt		**24,548**	19,966

The current portion of long-term debt is made up of the scheduled Term Loan principal repayments for the next twelve months, which begin in March 2022, as well as the balance due on the Company's ABL, which is treated as current due to its repayment and re-borrowing accommodations.

(a) Credit facility

	Term Loan $	ABL $	Total $
As at December 31, 2021			
Outstanding	**10,000**	**14,198**	**24,198**
Remaining available	**N/A**	**558**	**558**
Total credit facility	**10,000**	**14,756**	**24,756**
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").

The Term Loan is subject to an amortization schedule which requires that 1/24th of the principal be repaid each month of the term of the agreement, beginning in March 2022, with the remaining balance due at expiration of the credit agreement.

Borrowings under the Term Loan bear interest at an annual rate of one-month London Interbank Offered Rate ("LIBOR"), plus 6.50%, subject to a LIBOR floor of 1.50%. Interest on the outstanding balance of the Term Loan is payable monthly in arrears. As at December 31, 2021, $10,000 of the Term Loan was outstanding with a weighted average interest rate of 8.00%. The Financial Conduct Authority in the United Kingdom plans to phase out LIBOR, and we do not anticipate a significant impact to our financial position from this planed phase out.

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 pursuant to the treosulfan License Agreement entered into on February 2, 2021. As at December 31, 2021, these conditions had not been satisfied.

The terms and conditions of the Term Loan include certain customary representations, warranties and covenants, including requirements to maintain a minimum net sales and a minimum earnings before interest, income taxes, depreciation and amortization ("EBITDA") – subject to certain agreed-upon adjustments. As at December 31, 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 December 31, 2021, $14,756 was available to the Company under the ABL Facility, of which $14,198 was outstanding with a weighted average interest rate of 5.45%. The Financial Conduct Authority in the United Kingdom plans to phase out LIBOR, and we do not anticipate a significant impact to our financial position from this planed phase out.

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 December 31, 2021, the Company was in compliance with these financial covenants and all of the terms and conditions of its long-term debt agreements.

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

6 Convertible debentures

As at	December 31, 2021 $	March 31, 2021 $
Convertible debentures issued in October 2018	**29,214**	25,918
Embedded derivative on convertible debentures	**2,083**	23,726
Deferred financing transaction costs	**(765)**	(1,012)
	30,532	48,632
Current	**-**	-
Non-current	**30,532**	48,632
	30,532	48,632

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	December 31, 2021	March 31, 2021
Risk-free interest rate	**1.0%**	0.5%
Volatility*	**70.9%**	55.7%
Expected life	**1.75 yrs**	2.5 yrs

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

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

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	December 31, 2021 $	March 31, 2021 $
250 basis point increase to the assumed volatility rate		
Increase to fair value of the embedded derivative	**203**	837
250 basis point decrease to the assumed volatility rate		
Decrease to fair value of the embedded derivative	**(203)**	(849)

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	**1,482**	**615**	**2,097**
Payment		**(620)**	**(304)**	**(924)**
Unrealized foreign exchange gain		**169**	**-**	**169**
Currency translation adjustment		**(180)**	**-**	**(180)**
Balance of payable at December 31, 2021		**19,359**	**13,111**	**32,470**
Current		**-**	**969**	**969**
Non-Current		**19,359**	**12,142**	**31,501**
Balance of payable at December 31, 2021		**19,359**	**13,111**	**32,470**

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 BioTheraputics 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.

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

8 Share capital

Authorized and issued

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

Earnings per share

Basic net income (loss) per share was calculated by dividing net income (loss) attributable to common shareholders by the sum of the weighted-average number of common shares outstanding during the period.

Diluted net income (loss) per share was calculated using the denominator of the basic calculation described above, adjusted to include to potentially dilutive effect of vested restricted stock units (RSUs) and performance stock units (PSUs), as well as in-the-money stock options and warrants.

In instances were the Company reported a net loss for the period, the weighted-average number of common shares used for the basic and diluted net loss per share is the same, as the effect of the RSUs, PSUs, options and warrants would reduce the loss per share, and therefore be anti-dilutive.

9 Share-based compensation

Stock options	Three Months		Nine Months	
Periods ended December 31, 2021	**Number of options**	**Weighted average exercise price C$**	**Number of options**	**Weighted average exercise price C$**
Outstanding, beginning of period	850,248	5.38	424,675	5.06
Granted	89,098	3.44	526,771	5.36
Forfeited	(25,493)	(6.69)	(37,593)	(6.99)
Outstanding, end of period	**913,853**	**5.15**	**913,853**	**5.15**
Exercisable, end of period	**409,681**	**5.37**	**409,681**	**5.37**

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

Restricted stock units (RSUs)	Three Months		Nine Months	
Periods ended December 31, 2021	**Number of units**	**Weighted average exercise price C$**	**Number of units**	**Weighted average exercise price C$**
Outstanding, beginning of period	1,155,495	0.01	1,088,137	0.01
Granted	34,271	0.01	128,542	0.01
Exercised	(524,006)	(0.01)	(545,919)	(0.01)
Forfeited	-	-	(5,000)	(0.01)
Outstanding, end of period	**665,760**	**0.01**	**665,760**	**0.01**
Exercisable, end of period	**328,935**	**0.01**	**328,935**	**0.01**

Performance stock units (PSUs)	Three Months		Nine Months	
Periods ended December 31, 2021	**Number of units**	**Weighted average exercise price C$**	**Number of units**	**Weighted average exercise price C$**
Outstanding, beginning of period	219,997	0.01	72,999	0.01
Granted	92,549	0.01	245,597	0.01
Forfeited	(14,683)	(0.01)	(20,733)	(0.01)
Outstanding, end of period	**297,863**	**0.01**	**297,863**	**0.01**
Exercisable, end of period	**-**	**-**	**-**	**-**

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%-1.7%
Volatility*	53%-58%
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 $722 (2020 – $415) for the three-month period, and $2,035 (2020 – 1,022) for the nine-month period, ended December 31, 2021. These costs are included in selling and administrative expenses in the consolidated statement of loss and comprehensive loss.

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

10 Selling and administrative expenses

		Three Months		Nine Months	
Periods ended December 31	**Note**	**2021** **$**	2020* $	**2021** **$**	2020* $
Employee benefit expense	12	**5,526**	4,314	**16,383**	12,208
Sales and marketing expense		**2,049**	2,442	**7,745**	6,593
Regulatory and business development		**1,302**	1,160	**3,698**	3,450
General administrative		**1,802**	1,463	**6,314**	3,669
		10,679	9,379	**34,140**	25,920

*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

	Three Months		Nine Months	
Periods ended December 31	**2021** **$**	2020 $	**2021** **$**	2020 $
Interest on convertible debentures	**498**	489	**1,500**	1,419
Interest accretion on convertible debentures, net of amort. of deferred financing costs	**1,356**	1,033	**3,801**	2,802
Interest on long-term debt, net of amort. of deferred financing costs	**628**	473	**1,688**	1,383
Interest accretion on balance of payable for business combination	**664**	499	**2,097**	1,645
Interest on lease liabilities	**14**	6	**30**	20
Interest expense	**3,160**	2,500	**9,116**	7,269

12 Employee benefit expense

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

	Three Months		Nine Months	
Periods ended December 31	**2021** **$**	2020 $	**2021** **$**	2020 $
Salaries and benefits	**3,561**	2,956	**10,584**	8,791
Share-based compensation	**139**	60	**461**	107
	3,700	3,016	**11,045**	8,898

(expressed in thousands of United States 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.

	Three Months		Nine Months	
Periods ended December 31	**2021**	2020	**2021**	2020
	$	$	**$**	$
Key management compensation				
Salaries and benefits	**1,243**	943	**3,764**	2,395
Share-based compensation	**583**	355	**1,574**	915
	1,826	1,298	**5,338**	3,310

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 $41 (2020 – $62) for the three-month period, and $178 (2020 – $207) for the nine-month period, ended December 31, 2021.

b) Royalties paid on an exclusive licensing agreement with a significant shareholder of the Company totaled $95 (2020 - $107) for the three-month period, and $287 (2020 – $264) for the nine-month period, ended December 31, 2021.

c) Interest on convertible debentures which are owned or controlled, directly and indirectly, by directors of the Company totaled $73 (2020 – $69) for the three-month period, and $220 (2020 – $205) for the nine-month period, ended December 31, 2021.

14 Consolidated statements of cash flows

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

	Three Months		Nine Months	
Periods ended December 31	**2021**	2020	**2021**	2020
	$	$	**$**	$
Decrease (increase) in				
Accounts receivable	**(599)**	(11,551)	**4,098**	(10,868)
Inventories	**(1,761)**	1,342	**(1,550)**	1,424
Prepaid expenses	**1,313**	(2,673)	**50**	(2,772)
Other current assets	**232**	-	**519**	-
Increase in				
Accounts payable and accrued liabilities	**(2,389)**	7,371	**(1,184)**	5,485
	(3,204)	(5,511)	**1,933**	(6,731)

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

15 Geographic information

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

As at	December 31, 2021 $	March 31, 2021 $
United States	**73,906**	71,854
Canada	**17,630**	18,088

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

	Three Months		Nine Months	
Periods ended December 31	**2021** **$**	2020 $	**2021** **$**	2020 $
United States	**15,448**	19,498	**37,304**	47,303
Canada	**5,822**	4,758	**19,134**	14,718

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 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.

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

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

	December 31, 2021		March 31, 2021	
	Fair value hierarchy	Fair value $	Fair value hierarchy	Fair value $
Financial liabilities				
Convertible debentures – Derivative	Level 2	**2,083**	Level 2	23,726
Balance of payable for business combinations	Level 3	**32,470**	Level 3	31,308