

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated
Financial Statements
(unaudited)

**For the three-month period ended
June 30, 2022**
(expressed in thousands of United States dollars)

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Financial Position (unaudited)

As at June 30, 2022 and March 31, 2022

(expressed in thousands of United States dollars)

| | Note | June 30, 2022 \$ | March 31, 2022 \$ |
|----------------------------------------------------|------|------------------------|-------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 7,285 | 10,018 |
| Accounts receivable | | 14,715 | 14,407 |
| Inventories | | 21,979 | 21,351 |
| Prepays | | 3,303 | 2,055 |
| Other current assets | | 1,103 | 1,280 |
| | | 48,385 | 49,111 |
| Property and equipment | 3 | 1,125 | 1,221 |
| Intangible assets | 4 | 74,811 | 76,565 |
| Goodwill | 4 | 10,527 | 10,686 |
| Other long-term assets | | 1,551 | 1,642 |
| | | 136,399 | 139,225 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 25,421 | 29,174 |
| Income tax payable | | 38 | 27 |
| Current portion of long-term debt | 5 | 19,559 | 15,046 |
| Balance of payable for business combination | 7 | 1,547 | 1,226 |
| Other current liabilities | | 3,138 | 2,635 |
| | | 49,703 | 48,108 |
| Long-term debt | 5 | 7,127 | 9,576 |
| Convertible debentures – Host | 6 | 30,821 | 30,240 |
| Convertible debentures – Derivative | 6 | 411 | 2,711 |
| Balance of payable for business combination | 7 | 29,404 | 29,277 |
| Deferred tax liabilities | | 1,370 | 1,521 |
| | | 118,836 | 121,433 |
| Shareholders' Equity | | | |
| Share capital | | 68,689 | 68,686 |
| Contributed surplus | | 10,684 | 10,384 |
| Cumulative translation adjustment | | 4,837 | 3,971 |
| Deficit | | (66,647) | (65,249) |
| | | 17,563 | 17,792 |
| | | 136,399 | 139,225 |

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, 2022 and 2021

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

| | Note | 2022 \$ | 2021 \$ |
|----------------------------------------------------------------------|------|------------|------------|
| Revenue | | | |
| Products | | 23,046 | 17,267 |
| Cost of sales | | | |
| Cost of sales of products | | 8,657 | 8,894 |
| Amortization of product licences | 4 | 1,445 | 1,449 |
| | | 10,102 | 10,343 |
| Gross profit | | 12,944 | 6,924 |
| Selling and administrative expenses | 10 | 12,125 | 11,725 |
| Research and development expenses | | 661 | 2,231 |
| Transaction-related fees & expenses | | 28 | - |
| Depreciation and amortization | 3,4 | 97 | 130 |
| Operating income (loss) | | 33 | (7,162) |
| Financing costs | 11 | 3,149 | 2,884 |
| Convertible debentures – Unrealized gain on fair value of derivative | | (2,239) | (3,246) |
| Foreign exchange loss (gain) | | 675 | (213) |
| Loss before income taxes | | (1,552) | (6,587) |
| Income tax recovery | | | |
| Current | | 11 | - |
| Deferred | | (165) | - |
| | | (154) | - |
| Net loss | | (1,398) | (6,587) |
| Other comprehensive income | | | |
| Foreign currency adjustment on translation of foreign operations | | 866 | (606) |
| Comprehensive loss | | (532) | (7,193) |
| Net loss per share | | | |
| Basic and Diluted | | (0.07) | (0.34) |
| Weighted average number of common shares outstanding | | 19,952,602 | 19,169,223 |

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Loss and Comprehensive Loss (unaudited)

Three-month periods ended June 30, 2022 and 2021

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

| | Note | Share Capital | | Contributed surplus \$ | Cumulative translation adjustment \$ | Deficit \$ | Total shareholders' equity \$ |
|----------------------------------------------|------|---------------|--------------|---------------------------|-----------------------------------------|---------------|----------------------------------|
| | | Common shares | Amount \$ | | | | |
| Balance – March 31, 2021 | | 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) |
| Balance – June 30, 2021 | | 19,177,013 | 66,752 | 10,081 | 3,597 | (68,957) | 11,473 |
| Balance – March 31, 2022 | | 19,952,538 | 68,686 | 10,384 | 3,971 | (65,249) | 17,792 |
| Net loss | | - | - | - | - | (1,398) | (1,398) |
| Other comprehensive income | | - | - | - | 866 | - | 866 |
| Share-based compensation – Stock option plan | 9 | - | - | 179 | - | - | 179 |
| Share-based compensation – RSU plan | 9 | - | - | 70 | - | - | 70 |
| Share-based compensation – PSU plan | 9 | - | - | 54 | - | - | 54 |
| Issuance of shares for settling of RSUs | 9 | 1,921 | 3 | (3) | - | - | - |
| Balance – June 30, 2022 | | 19,954,459 | 68,689 | 10,684 | 4,837 | (66,647) | 17,563 |

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Cash Flows

(unaudited)

Three-month periods ended June 30, 2022 and 2021

(expressed in thousands of United States dollars)

| | Note | 2022 \$ | 2021 \$ |
|-----------------------------------------------------------------------|------|----------------|----------------|
| Operating activities | | | |
| Net loss | | (1,398) | (6,587) |
| Adjustments for | | | |
| Depreciation and amortization | 3,4 | 97 | 130 |
| Amortization of product licences | 4 | 1,445 | 1,449 |
| Share-based compensation expense | 12 | 303 | 648 |
| Interest expense | 11 | 3,149 | 2,884 |
| Convertible debentures – Unrealized gain on fair value of derivatives | | (2,239) | (3,246) |
| Unrealized foreign exchange gain | | 675 | (215) |
| Income tax recovery | | (154) | - |
| | | 1,878 | (4,937) |
| Changes in non-cash operating working capital items | 14 | (5,893) | (1,878) |
| Cash used by operating activities | | (4,015) | (6,815) |
| Investing activities | | | |
| Purchase of property and equipment | | (16) | (32) |
| Purchase of intangible assets | | - | (5,723) |
| Business acquisitions deferred payment | | (149) | (132) |
| Cash used by investing activities | | (165) | (5,887) |
| Financing activities | | | |
| Interest paid | | (487) | (404) |
| Draw of Asset-Based Loan, net | | 2,072 | 4,584 |
| Repayment of lease liabilities | | (61) | (91) |
| Cash provided by financing activities | | 1,524 | 4,089 |
| Net change in cash and cash equivalents during the period | | (2,656) | (8,613) |
| Impact of foreign exchange on cash and cash equivalents | | (77) | 108 |
| Cash and cash equivalents – Beginning of period | | 10,018 | 18,704 |
| Cash and cash equivalents – End of period | | 7,285 | 10,199 |

The accompanying notes are an integral part of these unaudited condensed interim 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. and its subsidiaries (collectively, 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 common shares, convertible debentures and certain warrants to purchase Common Shares are traded on the Toronto Stock 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.

As at June 30, 2022, the Company had cash and cash equivalents of \$7,285 and available credit of \$1,394 under its asset-based revolving credit facility.

The Company, together with medac, is currently applying for the FDA’s approval for treosulfan in the United States. If the FDA approves treosulfan, then the Company would become obligated to pay a significant milestone amount to medac under the Company’s February 2021 exclusive license agreement relating to treosulfan (the “U.S. Treosulfan Agreement”). The range of possible milestone amounts would be between \$15,000 and \$45,000. The specific amount due would depend on the terms of the FDA’s approval. In addition, if the FDA approves treosulfan, then the Company would become obligated to repay a \$2,500 credit received from medac in September 2021 in respect of previously paid milestone amounts. In August 2022, the Company and medac amended the U.S. Treosulfan Agreement to defer any milestone payments related to the FDA approval of treosulfan to October 2023; for clarity: this does not include repayment of the \$2,500 credit, which would occur shortly following the FDA’s approval. If the FDA approves treosulfan, then the Company would likely need to secure additional third-party debt or equity financing to make these payments and retain its exclusive license and distribution rights under the U.S. Treosulfan Agreement. The Company has engaged in fundraising discussions with a number of existing investors and other capital providers who have expressed interest in the Company. The Company expects that this interest will increase as the FDA’s review progresses and in the event of a favorable FDA decision. The Company has been successful in securing third-party financing in the past, most recently in February 2021, when the Company raised \$22,635 in equity financing after announcing the U.S. Treosulfan Agreement, and in July 2021, filed a shelf prospectus that allows the Company to efficiently access the capital markets for up to C\$100,000. However, there can be no assurance that the Company will be able to secure similar third-party financing in the future, or that these sources of capital will be available to the Company on terms acceptable to the Company.

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)

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, 2022.

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.

These unaudited condensed interim consolidated financial statements were approved for issue by the Board of Directors of the Company on August 8, 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 June 30, 2022, 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.

Estimates, judgments and assumptions

The preparation of the unaudited 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

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 which the estimates are revised and in any future period affected. Actual results may differ from these estimates.

In preparing these unaudited 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, 2022, 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.

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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, 2022 | 524 | 697 | 1,221 |
| Additions | 16 | - | 16 |
| Depreciation | (40) | (57) | (97) |
| Currency translation adjustment | (12) | (3) | (15) |
| Net book value at June 30, 2022 | 488 | 637 | 1,125 |
| As at June 30, 2022 | | | |
| Cost | 1,057 | 1,021 | 2,078 |
| Accumulated depreciation | (569) | (384) | (953) |
| Net book value | 488 | 637 | 1,125 |
| As at March 31, 2022 | | | |
| Cost | 1,058 | 1,031 | 2,089 |
| Accumulated depreciation | (534) | (334) | (868) |
| Net book value | 524 | 697 | 1,221 |

4 Intangible assets and goodwill

| | Licences \$ | Goodwill \$ |
|----------------------------------------|----------------|----------------|
| Net book value at March 31, 2022 | 76,565 | 10,686 |
| Amortization | (1,445) | - |
| Currency translation adjustment | (309) | (159) |
| Net book value at June 30, 2022 | 74,811 | 10,527 |
| As at June 30, 2022 | | |
| Cost | 92,785 | 10,527 |
| Accumulated amortization | (17,974) | - |
| Net book value | 74,811 | 10,527 |
| As at March 31, 2022 | | |
| Cost | 93,256 | 10,686 |
| Accumulated amortization | (16,691) | - |
| Net book value | 76,565 | 10,686 |

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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, 2022 \$ | March 31, 2022 \$ |
|---------------------------------|------|------------------------|-------------------------|
| Credit facility | (a) | 26,318 | 24,245 |
| Deferred debt transaction costs | | (353) | (406) |
| Lease liabilities | | 721 | 783 |
| Long-term debt | | 26,686 | 24,622 |
| Current | | 19,559 | 15,046 |
| Non-current | | 7,127 | 9,576 |
| Long-term debt | | 26,686 | 24,622 |

(a) Credit facility

| | Term Loan \$ | ABL \$ | Total \$ |
|------------------------------|-----------------|---------------|---------------|
| As at June 30, 2022 | | | |
| Outstanding | 10,000 | 16,318 | 26,318 |
| Remaining available | N/A | 1,394 | 1,394 |
| Total credit facility | 10,000 | 17,712 | 27,712 |
| As at March 31, 2022 | | | |
| Outstanding | 10,000 | 14,245 | 24,245 |
| Remaining available | N/A | 1,178 | 1,178 |
| Total credit facility | 10,000 | 15,423 | 25,423 |

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 (including an appropriate successor index as applicable, "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 June 30, 2022, \$10,000 of the Term Loan was outstanding with a weighted average interest rate of 8.29%.

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, 2022, the Company was in compliance with these financial covenants and all of the terms and conditions of its long-term debt agreements.

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Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

Asset-Based Loan

On May 7, 2020, the Company entered into a definitive credit agreement with a syndicate of lenders agented by MidCap Financial Trust in respect of a \$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. As at June 30, 2022, \$17,712 was available to the Company under the ABL Facility, of which \$16,318 was outstanding with a weighted average interest rate of 5.74%.

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, 2022, 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 | June 30, 2022 \$ | March 31, 2022 \$ |
|-----------------------------------------------|---------------------------------|----------------------------------|
| Convertible debentures issued in October 2018 | 31,395 | 30,929 |
| Embedded derivative on convertible debentures | 411 | 2,711 |
| Deferred financing transaction costs | (574) | (689) |
| | 31,232 | 32,951 |
| Current | - | - |
| Non-current | 31,232 | 32,951 |
| | 31,232 | 32,951 |

Convertible debentures issued in October 2018

The Company’s convertible debentures will mature on October 16, 2023, and convertible 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.

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 convertible debentures are convertible, at the holders option, into units consisting of one common share and one half of one warrant to purchase an additional commons share.

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 fair value through profit or loss (“FVTPL”), 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, 2022 | March 31, 2022 |
|-------------------------|--------------------------|---------------------------|
| Risk-free interest rate | 3.1% | 2.3% |
| Volatility* | 66.1% | 67.3% |
| Expected life | 1.25 yrs | 1.5 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, 2022 \$ | March 31, 2022 \$ |
|--------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------------|
| 250 basis point increase to the assumed volatility rate Increase to fair value of the embedded derivative | 84 | 249 |
| 250 basis point decrease to the assumed volatility rate Decrease to fair value of the embedded derivative | (84) | (230) |

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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, 2022 | | 18,138 | 12,365 | 30,503 |
| Interest accretion | 11 | 437 | 156 | 593 |
| Payment | | - | (149) | (149) |
| Unrealized foreign exchange gain | | 558 | - | 558 |
| Currency translation adjustment | | (554) | - | (554) |
| Balance of payable at June 30, 2022 | | 18,579 | 12,372 | 30,951 |
| Current | | - | 1,547 | 1,547 |
| Non-Current | | 18,579 | 10,825 | 29,404 |
| Balance of payable at June 30, 2022 | | 18,579 | 12,372 | 30,951 |

Medac Pharma Inc.

As part of the acquisition of Medac Pharma Inc. on October 16, 2018, the Company is required to make 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 June 30, 2022, and (ii) 5% of net sales thereafter until March 1, 2035. In addition, the Aptevo 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.

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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\$ |
|-------------------------------------------------------|----------------------|-------------------------------------------------|
| For the three-month period ended June 30, 2022 | | |
| Outstanding, beginning of period | 821,626 | 5.18 |
| Granted | 61,732 | 1.97 |
| Forfeited | <u>(45,258)</u> | <u>(5.08)</u> |
| Outstanding, end of period | <u>838,100</u> | <u>4.95</u> |
| Exercisable, end of period | <u>373,967</u> | <u>5.53</u> |

Restricted stock units (RSUs)

| | Number of units | Weighted average exercise price C\$ |
|-------------------------------------------------------|--------------------|-------------------------------------------------|
| For the three-month period ended June 30, 2022 | | |
| Outstanding, beginning of period | 695,050 | 0.01 |
| Granted | - | - |
| Exercised | <u>(2,150)</u> | <u>(0.01)</u> |
| Outstanding, end of period | <u>692,900</u> | <u>0.01</u> |
| Exercisable, end of period | <u>360,725</u> | <u>0.01</u> |

Performance stock units (PSUs)

| | Number of units | Weighted average exercise price C\$ |
|-------------------------------------------------------|--------------------|-------------------------------------------------|
| For the three-month period ended June 30, 2022 | | |
| Outstanding, beginning of period | 248,613 | 0.01 |
| Granted | 30,866 | 0.01 |
| Forfeited | <u>(3,500)</u> | <u>(0.01)</u> |
| Outstanding, end of period | <u>275,979</u> | <u>0.01</u> |
| Exercisable, end of period | <u>-</u> | <u>-</u> |

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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:

| | 2022 |
|-------------------------|--------------|
| Risk-free interest rate | 3.1% |
| Volatility* | 62.3% |
| Expected life | 5 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, 2022, the share-based compensation expense with respect to these options, RSUs and PSUs amounted to \$303 (2021 – \$671). 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

| For the three-month periods ended June 30 | Note | 2022 | 2021* |
|--------------------------------------------------|-------------|---------------------|--------------|
| | | \$ | \$ |
| Employee benefit expense | 12 | 5,952 | 5,166 |
| Sales and marketing expense | | 3,142 | 3,340 |
| Regulatory and business development | | 1,429 | 1,072 |
| General administrative | | 1,602 | 2,147 |
| | | <hr/> 12,125 | <hr/> 11,725 |

11 Financing costs

| For the three-month periods ended June 30 | 2022 | 2021 |
|-----------------------------------------------------------------------------------------|--------------------|-------------|
| | \$ | \$ |
| Interest on convertible debentures | 488 | 505 |
| Interest accretion on convertible debentures, net of amort. of deferred financing costs | 1,510 | 1,235 |
| Interest on long-term debt, net of amort. of deferred financing costs | 541 | 503 |
| Interest accretion on balance of payable for business combination | 597 | 638 |
| Interest on lease liabilities | 13 | 3 |
| | <hr/> 3,149 | <hr/> 2,884 |

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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)

| For the three-month periods ended June 30 | 2022 | 2021 |
|--------------------------------------------------|--------------|--------------|
| | \$ | \$ |
| Salaries and benefits | 4,208 | 3,285 |
| Share-based compensation | 127 | 245 |
| | <u>4,335</u> | <u>3,530</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.

| For the three-month periods ended June 30 | 2022 | 2021 |
|--------------------------------------------------|--------------|--------------|
| | \$ | \$ |
| Key management compensation | | |
| Salaries and benefits | 1,441 | 1,210 |
| Share-based compensation | 176 | 426 |
| | <u>1,617</u> | <u>1,636</u> |

13 Related party transactions

The Company views the following transactions with related parties as having occurred in the normal course of the company's 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 \$76 (2021 – \$70) for the three-month period ended June 30, 2022
- b) Interest on convertible debentures which are owned or controlled, directly and indirectly, by three directors of the Company totaled \$73 (2021 – \$75) for the three-month period ended June 30, 2022. All interest payments are made in accordance with the terms of the convertible debentures.

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(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:

| For the three-month periods ended June 30 | 2022 | 2021 |
|--------------------------------------------------|----------------|----------------|
| | \$ | \$ |
| Decrease (increase) in | | |
| Accounts receivable | (405) | 1,828 |
| Inventories | (821) | 1,665 |
| Prepaid expenses | (1,267) | (1,457) |
| Other current assets | 141 | 293 |
| Decrease in | | |
| Accounts payable and accrued liabilities | (3,541) | (4,207) |
| | (5,893) | (1,878) |

15 Geographic information

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

| As at | June 30, 2022 | March 31, 2022 |
|---------------|--------------------------|---------------------------|
| | \$ | \$ |
| United States | 72,741 | 73,753 |
| Canada | 15,273 | 16,361 |

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

| For the three-month periods ended June 30 | 2022 | 2021 |
|--------------------------------------------------|-------------|-------------|
| | \$ | \$ |
| United States | 15,811 | 10,618 |
| Canada | 7,235 | 6,649 |

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, as amended, the Company has the exclusive right to manufacture, promote, market, sell and distribute the product globally. In return, the Company pays the licensor royalties based on annual net sales of the product.

The Company has the right to acquire the product at any time until the tenth 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 eighth anniversary of the effective date of the licensing agreement

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and ending on the tenth anniversary of the effective date of the licensing agreement, the licensor has the option to sell the product to the Company for the same option exercise price.

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 June 30, 2022, and March 31, 2022, other financial instruments measured at fair value in the consolidated statements of financial position were as follows:

| | <u>June 30, 2022</u> | | <u>March 31, 2022</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 | 411 | Level 2 | 2,711 |
| Balance of payable for business combinations | Level 3 | 30,951 | Level 3 | 30,503 |