

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated
Financial Statements
(unaudited)

**For the three- and six-month periods ended
September 30, 2022**
(expressed in thousands of United States dollars)

Medexus Pharmaceuticals Inc.
Interim Consolidated Statements of Financial Position
(unaudited)
As at September 30, 2022 and March 31, 2021
(expressed in thousands of United States dollars)

	Note	September 30, 2022 \$	March 31, 2022 \$
Assets			
Current assets			
Cash and cash equivalents		9,647	10,018
Accounts receivable		17,017	14,407
Inventories		23,758	21,351
Prepays		5,180	2,055
Other current assets		1,084	1,280
		56,686	49,111
Property and equipment	3	1,021	1,221
Intangible assets	4	72,936	76,565
Goodwill	4	10,221	10,686
Other long-term assets		1,444	1,642
		142,308	139,225
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		28,875	29,174
Income tax payable		146	27
Current portion of long-term debt	5	29,698	15,046
Balance of payable for business combination	7	3,351	1,226
Other current liabilities		2,682	2,635
		64,752	48,108
Long-term debt	5	494	9,576
Convertible debentures – Host	6	30,377	30,240
Convertible debentures – Derivative	6	256	2,711
Balance of payable for business combination	7	28,045	29,277
Deferred tax liabilities		1,437	1,521
		125,361	121,433
Shareholders' Equity			
Share capital		68,797	68,686
Contributed surplus		10,835	10,384
Cumulative translation adjustment		6,692	3,971
Deficit		(69,377)	(65,249)
		16,947	17,792
		142,308	139,225

The accompanying notes are an integral part of these unaudited condensed interim 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, 2022 and 2021

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

Periods ended September 30	Note	Three Months		Six Months	
		2022 \$	2021 \$	2022 \$	2021 \$
Revenue					
Products		27,686	17,901	50,732	35,168
Cost of sales					
Cost of sales of products		10,103	7,050	18,760	15,944
Amortization of product licences	4	1,439	1,463	2,884	2,912
		11,542	8,513	21,644	18,856
Gross profit		16,144	9,388	29,088	16,312
Selling and administrative expenses	10	12,861	11,736	24,986	23,461
Research and development expenses		856	1,773	1,517	4,004
Transaction-related fees & expenses		144	-	172	-
Termination benefits		238	784	238	784
Depreciation and amortization	3	98	86	195	216
Operating income (loss)		1,947	(4,991)	1,980	(12,153)
Financing costs	11	3,293	3,072	6,442	5,956
Convertible debentures – Unrealized gain on fair value of derivative		(113)	(16,280)	(2,352)	(19,526)
Foreign exchange loss		1,308	597	1,983	384
Income (loss) before income taxes		(2,541)	7,620	(4,093)	1,033
Income tax expense (recovery)					
Current		108	125	119	125
Deferred		81	(2,650)	(84)	(2,650)
		189	(2,525)	35	(2,525)
Net income (loss)		(2,730)	10,145	(4,128)	3,558
Other comprehensive income					
Foreign currency income on translation of foreign operations		1,855	733	2,721	127
Comprehensive income (loss)		(875)	10,878	(1,407)	3,685
Net income (loss) per share					
Basic		(0.14)	0.53	(0.21)	0.19
Diluted		(0.14)	0.52	(0.21)	0.18
Weighted average number of common shares outstanding		19,975,578	19,179,575	19,964,100	19,174,427

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

Medexus Pharmaceuticals Inc.

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

Six-month periods ended September 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 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
Balance – March 31, 2022		19,952,538	68,686	10,384	3,971	(65,249)	17,792
Net loss		-	-	-	-	(4,128)	(4,128)
Other comprehensive income		-	-	-	2,721	-	2,721
Issuance of warrants		-	-	35	-	-	35
Share-based compensation – Stock option plan	9	-	-	336	-	-	336
Share-based compensation – RSU plan	9	-	-	195	-	-	195
Share-based compensation – PSU plan	9	-	-	103	-	-	103
Issuance of shares for settling of RSUs	9	51,343	111	(218)	-	-	(107)
Balance – September 30, 2022		20,003,881	68,797	10,835	6,692	(69,377)	16,947

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- and six-month periods ended September 30, 2022 and 2021

(expressed in thousands of United States dollars)

Periods ended September 30	Note	Three Months		Six Months	
		2022 \$	2021 \$	2022 \$	2021 \$
Operating activities					
Net income (loss)		(2,730)	10,145	(4,128)	3,558
Adjustments for					
Depreciation and amortization	3	98	86	195	216
Amortization of product licences	4	1,439	1,463	2,884	2,912
Share-based compensation expense	9	224	637	527	1,285
Interest expense	11	3,293	3,072	6,442	5,956
Convertible debentures – Unrealized gain on fair value of derivative		(113)	(16,280)	(2,352)	(19,526)
Unrealized foreign exchange loss		1,301	597	1,976	382
Income tax expense (recovery)		189	(2,525)	35	(2,525)
		3,701	(2,805)	5,579	(7,742)
Changes in non-cash operating working capital items	14	(2,789)	7,015	(8,682)	5,137
Income taxes paid		-	(639)	-	(639)
Cash provided (used) by operating activities		912	3,571	(3,103)	(3,244)
Investing activities					
Purchases of property and equipment		(16)	(38)	(32)	(70)
Purchases of intangible assets		(142)	-	(142)	(5,723)
Business acquisition deferred payment	7	(165)	(81)	(314)	(213)
Cash used by investing activities		(323)	(119)	(488)	(6,006)
Financing activities					
Interest paid		(1,513)	(532)	(2,000)	(936)
Draw (repayment) of Asset-Based Loan, net		3,414	(4,823)	5,486	(239)
Repayment of lease liabilities		(34)	(8)	(95)	(99)
Cash provided (used) by financing activities		1,867	(5,363)	3,391	(1,274)
Net change in cash and cash equivalents during the period		2,456	(1,911)	(200)	(10,524)
Impact of foreign exchange on cash and cash equivalents		(94)	(151)	(171)	(43)
Cash and cash equivalents – Beginning of period		7,285	10,199	10,018	18,704
Cash and cash equivalents – End of period		9,647	8,137	9,647	8,137

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 September 30, 2022, the Company had cash and cash equivalents of \$9,647 and available credit of \$488 under its asset-based revolving credit facility.

The Company, together with medac GmbH (“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 milestone amount to medac under the Company’s February 2021 exclusive license agreement relating to treosulfan (the “U.S. Treosulfan Agreement”). If FDA approval occurs before May 2023, then 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. If FDA approval occurs during or after May 2023, or in other circumstances set out in the U.S. Treosulfan Agreement, then the milestone amounts otherwise payable would be adjusted as set out in the U.S. Treosulfan Agreement. 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. On September 16, 2022 the Company received notice that the FDA had delivered to medac a notice of incomplete response regarding the treosulfan application. The FDA’s notice requests further supporting information from medac, but does not require submission of new clinical data. If the FDA approves treosulfan, then the Company may 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)

The loans outstanding under the Company's credit facilities with MidCap Financial Trust and MidCap Funding IV Trust are scheduled to mature in July 2023, unless extended to February 2024 in accordance with the terms of those credit facilities. Accordingly, the total amount of those loans appear in the current portion of long-term debt in the Company's interim consolidated statements of financial position as at September 30, 2022. The Company is currently exploring various options with respect to its debt financing arrangements. The Company has been successful in securing third-party financing in the past. 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.

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 November 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 September 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.

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)

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 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.

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, 2022	524	697	1,221
Additions	32	-	32
Depreciation	(81)	(114)	(195)
Currency translation adjustment	(33)	(4)	(37)
Net book value at September 30, 2022	442	579	1,021
As at September 30, 2022			
Cost	1,034	1,002	2,036
Accumulated depreciation	(592)	(423)	(1,015)
Net book value	442	579	1,021
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
Additions	142	-
Amortization	(2,884)	-
Currency translation adjustment	(887)	(465)
Net book value at September 30, 2022	72,936	10,221
As at September 30, 2022		
Cost	92,017	10,221
Accumulated amortization	(19,081)	-
Net book value	72,936	10,221
As at March 31, 2022		
Cost	93,256	10,686
Accumulated amortization	(16,691)	-
Net book value	76,565	10,686

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, 2022 \$	March 31, 2022 \$
Credit facility	(a)	29,731	24,245
Deferred debt transaction costs		(225)	(406)
Lease liabilities		686	783
Long-term debt		30,192	24,622
Current		29,698	15,046
Non-current		494	9,576
Long-term debt		30,192	24,622

(a) Credit facility

	Term Loan \$	ABL \$	Total \$
As at September 30, 2022			
Outstanding	10,000	19,731	29,731
Remaining available	N/A	488	488
Total credit facility	10,000	20,219	30,219
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"). As at September 30, 2022, the balance due on the term loan is classified as a current liability as the maturity of the credit facility is within 12 months. The Company is currently exploring various options with respect to its debt financing arrangements.

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 September 30, 2022, \$10,000 of the Term Loan was outstanding with a weighted average interest rate of 9.64%.

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,

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)

2022, 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 Funding IV Trust in respect of a \$20,000 secured asset-based revolving credit facility having a term of 38 months expiring July 17, 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. As at September 30, 2022, the balance due on the ABL Facility is classified as a current liability as the maturity of the credit facility is within 12 months. The Company is currently exploring various options with respect to its debt financing arrangements.

In September 2022, the Company announced an amendment to the ABL Facility, which increased the revolving loan commitment amount to \$25,000 (subject to the borrowing base) on substantially the same terms provided under the existing facility.

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 September 30, 2022, \$20,219 was available to the Company under the ABL Facility, of which \$19,731 was outstanding with a weighted average interest rate of 7.09%.

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, 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	September 30, 2022	March 31, 2022
	\$	\$
Convertible debentures issued in October 2018	30,827	30,929
Embedded derivative on convertible debentures	256	2,711
Deferred financing transaction costs	(450)	(689)
	30,633	32,951
Current	-	-
Non-current	30,633	32,951
	30,633	32,951

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 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.

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 common 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	September 30, 2022	March 31, 2022
Risk-free interest rate	3.8%	2.3%
Volatility*	107.3%	67.3%
Expected life	1.0 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	September 30, 2022	March 31, 2022
	\$	\$
250 basis point increase to the assumed volatility rate Increase to fair value of the embedded derivative	25	249
250 basis point decrease to the assumed volatility rate Decrease to fair value of the embedded derivative	(22)	(230)

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, 2022		18,138	12,365	30,503
Interest accretion	11	886	321	1,207
Payment		-	(314)	(314)
Unrealized foreign exchange gain		(1,756)	-	(1,756)
Currency translation adjustment		1,756	-	1,756
Balance of payable at September 30, 2022		19,024	12,372	31,396
Current				3,351
Non-Current				28,045
Balance of payable at September 30, 2022				31,396

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 \$30,000 in annual payments have been made. To date the Company has made payments totaling \$1,109 towards this amount.

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 before 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.

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

Periods ended September 30, 2022	Three Months		Six Months	
	Number of options	Weighted average exercise price C\$	Number of options	Weighted average exercise price C\$
Outstanding, beginning of period	838,100	4.95	821,626	5.18
Granted	218,750	2.12	280,482	2.09
Forfeited	(16,153)	4.85	(61,411)	(5.02)
Outstanding, end of period	1,040,697	4.35	1,040,697	4.35
Exercisable, end of period	512,357	4.92	512,357	4.92

Restricted stock units (RSUs)

Periods ended September 30, 2022	Three Months		Six Months	
	Number of units	Weighted average exercise price C\$	Number of units	Weighted average exercise price C\$
Outstanding, beginning of period	692,900	0.01	695,050	0.01
Granted	109,375	0.01	109,375	0.01
Exercised	(95,909)	(0.01)	(98,059)	(0.01)
Outstanding, end of period	706,366	0.01	706,366	0.01
Exercisable, end of period	330,611	0.01	330,611	0.01

Performance stock units (PSUs)

Periods ended September 30, 2022	Three Months		Six Months	
	Number of units	Weighted average exercise price C\$	Number of units	Weighted average exercise price C\$
Outstanding, beginning of period	275,979	0.01	248,613	0.01
Granted	-	0.01	30,866	0.01
Forfeited	(9,183)	(0.01)	(12,683)	(0.01)
Outstanding, end of period	266,796	0.01	266,796	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 weighted average assumptions used in the fair value estimation were as follows:

	2022
Risk-free interest rate	3.3%
Volatility*	66.5%
Expected life	5 yrs
Expected dividend yield	NIL

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

For the three- and six-month periods ended September 30, 2022, the share-based compensation expense with respect to these options, RSUs and PSUs amounted to \$331 (2021 – \$642) and \$634 (2021 – \$1,313). 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

Periods ended September 30	Note	Three Months		Six Months	
		2022	2021	2022	2021
		\$	\$	\$	\$
Employee benefit expense	12	6,357	5,691	12,309	10,857
Sales and marketing expense		3,025	2,356	6,167	5,696
Regulatory and business development		1,599	1,324	3,028	2,396
General administrative		1,880	2,365	3,482	4,512
		12,861	11,736	24,986	23,461

11 Financing costs

Periods ended September 30	Three Months		Six Months	
	2022	2021	2022	2021
	\$	\$	\$	\$
Interest on convertible debentures	477	497	965	1,002
Interest accretion on convertible debentures, net of amort. of deferred financing costs	1,471	1,210	2,981	2,445
Interest on long-term debt, net of amort. of deferred financing costs	724	557	1,265	1,060
Interest accretion on balance of payable for business combination	610	795	1,207	1,433
Interest on lease liabilities	11	13	24	16
Interest expense	3,293	3,072	6,442	5,956

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	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries and benefits	4,544	3,738	8,752	7,023
Share-based compensation	61	77	188	322
	<u>4,605</u>	<u>3,815</u>	<u>8,940</u>	<u>7,345</u>

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

Periods ended September 30	Three Months		Six Months	
	2022	2021	2022	2021
	\$	\$	\$	\$
Key management compensation				
Salaries and benefits	1,482	1,311	2,923	2,521
Share-based compensation	270	565	446	991
	<u>1,752</u>	<u>1,876</u>	<u>3,369</u>	<u>3,512</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 \$68 (2021 – \$67) for the three-month period, and \$144 (2021 – \$137) for the six-month period ended September 30, 2022.
- b) Interest on convertible debentures which are owned or controlled, directly and indirectly, by two directors of the Company totaled \$72 (2021 – \$72) for the three-month period, and \$145 (2021 – \$147) for the six-month period, ended September 30, 2022. All interest payments are made in accordance with the terms of the convertible debentures.

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

14 Consolidated statements of cash flows

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

Periods ended September 30	Three Months		Six Months	
	2022	2021	2022	2021
	\$	\$	\$	\$
Decrease (increase) in				
Accounts receivable	(2,458)	2,869	(2,863)	4,697
Inventories	103	(1,454)	(718)	211
Prepaid expenses	(1,707)	194	(2,974)	(1,263)
Other current assets	(11)	(6)	130	287
Increase in				
Accounts payable and accrued liabilities	1,284	5,412	(2,257)	1,205
	(2,789)	7,015	(8,682)	5,137

15 Geographic information

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

As at	September 30, 2022	March 31, 2022
	\$	\$
United States	71,489	73,753
Canada	14,133	16,361

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

Periods ended September 30	Three Months		Six Months	
	2022	2021	2022	2021
	\$	\$	\$	\$
United States	20,028	11,238	35,839	21,856
Canada	7,658	6,663	14,893	13,312

Medexus Pharmaceuticals Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

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

16 Financial instruments

Fair value estimation

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

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

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

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

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

	<u>September 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	256	Level 2	2,711
Balance of payable for business combinations	Level 3	31,396	Level 3	30,503