

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated
Financial Statements
(unaudited)

**For the three- and nine-month periods ended
December 31, 2022**
(expressed in thousands of United States dollars)

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

	Note	December 31, 2022 \$	March 31, 2022 \$
Assets			
Current assets			
Cash and cash equivalents		9,273	10,018
Accounts receivable		20,323	14,407
Inventories		22,404	21,351
Prepays		8,710	2,055
Other current assets		1,176	1,280
		61,886	49,111
Property and equipment	3	953	1,221
Intangible assets	4	71,618	76,565
Goodwill	4	10,278	10,686
Other long-term assets		1,585	1,642
		146,320	139,225
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		27,683	29,174
Income tax payable		414	27
Current portion of long-term debt	5	32,838	15,046
Convertible debentures – Host	6	32,339	-
Convertible debentures – Derivative	6	847	-
Balance of payable for business combination	7	3,402	1,226
Other current liabilities		3,283	2,635
		100,806	48,108
Long-term debt	5	484	9,576
Convertible debentures – Host	6	-	30,240
Convertible debentures – Derivative	6	-	2,711
Balance of payable for business combination	7	28,095	29,277
Deferred tax liabilities		1,507	1,521
		130,892	121,433
Shareholders' Equity			
Share capital		68,962	68,686
Contributed surplus		10,960	10,384
Cumulative translation adjustment		6,390	3,971
Deficit		(70,884)	(65,249)
		15,428	17,792
		146,320	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 nine-month periods ended December 31, 2022 and 2021

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

Periods ended December 31	Note	Three Months		Nine Months	
		2022 \$	2021 \$	2022 \$	2021 \$
Revenue					
Products		28,731	21,270	79,463	56,438
Cost of sales					
Cost of sales of products		11,373	8,362	30,133	24,306
Amortization of product licences	4	1,425	1,407	4,309	4,319
		12,798	9,769	34,442	28,625
Gross profit		15,933	11,501	45,021	27,813
Selling and administrative expenses	10	11,878	10,679	36,864	34,140
Research and development expenses		693	1,035	2,210	5,039
Transaction-related fees & expenses		-	33	172	33
Termination benefits		372	-	610	784
Depreciation and amortization	3	90	93	285	309
Operating income (loss)		2,900	(339)	4,880	(12,492)
Financing costs	11	3,552	3,160	9,994	9,116
Convertible debentures – Unrealized loss (gain) on fair value of derivative		646	(2,239)	(1,706)	(21,765)
Foreign exchange loss (gain)		(338)	(16)	1,645	368
Loss before income taxes		(960)	(1,244)	(5,053)	(211)
Income tax expense (recovery)					
Current		477	-	596	125
Deferred		70	(94)	(14)	(2,744)
		547	(94)	582	(2,619)
Net income (loss)		(1,507)	(1,150)	(5,635)	2,408
Other comprehensive income					
Foreign currency income on translation of foreign operations		(302)	(29)	2,419	98
Comprehensive income (loss)		(1,809)	(1,179)	(3,216)	2,506
Net income (loss) per share					
Basic		(0.07)	(0.07)	(0.28)	0.12
Diluted		(0.07)	(0.07)	(0.28)	0.11
Weighted average number of common shares outstanding		20,037,954	19,734,673	19,988,774	19,361,863

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)

Nine-month periods ended December 31, 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		-	-	-	-	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
Balance – March 31, 2022		19,952,538	68,686	10,384	3,971	(65,249)	17,792
Net loss		-	-	-	-	(5,635)	(5,635)
Other comprehensive income		-	-	-	2,419	-	2,419
Issuance of warrants		-	-	35	-	-	35
Share-based compensation – Stock option plan	9	-	-	387	-	-	387
Share-based compensation – RSU plan	9	-	-	554	-	-	554
Share-based compensation – PSU plan	9	-	-	129	-	-	129
Issuance of shares for settling of RSUs	9	186,480	276	(529)	-	-	(253)
Balance – December 31, 2022		20,139,018	68,962	10,960	6,390	(70,884)	15,428

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 nine-month periods ended December 31, 2022 and 2021

(expressed in thousands of United States dollars)

Periods ended December 31	Note	Three Months		Nine Months	
		2022 \$	2021 \$	2022 \$	2021 \$
Operating activities					
Net income (loss)		(1,507)	(1,150)	(5,635)	2,408
Adjustments for					
Depreciation and amortization	3	90	93	285	309
Amortization of product licences	4	1,425	1,407	4,309	4,319
Share-based compensation expense	9	290	331	817	1,616
Interest expense	11	3,552	3,160	9,994	9,116
Convertible debentures – Unrealized loss (gain) on fair value of derivative		646	(2,239)	(1,706)	(21,765)
Unrealized foreign exchange loss (gain)		(439)	(22)	1,537	360
Income tax expense (recovery)		547	(94)	582	(2,619)
		4,604	1,486	10,183	(6,256)
Changes in non-cash operating working capital items	14	(6,598)	(3,204)	(15,280)	1,933
Income taxes paid		(210)	-	(210)	(639)
Cash used by operating activities		(2,204)	(1,718)	(5,307)	(4,962)
Investing activities					
Purchases of property and equipment		(17)	(9)	(51)	(79)
Purchases of intangible assets		-	(253)	(140)	(5,976)
Business acquisition deferred payment	7	(521)	(91)	(835)	(304)
Cash used by investing activities		(538)	(353)	(1,026)	(6,359)
Financing activities					
Interest paid		(643)	(599)	(2,643)	(1,535)
Draw of Asset-Based Loan, net		3,112	4,085	8,598	3,846
Repayment of lease liabilities		(53)	(9)	(148)	(108)
Cash provided by financing activities		2,416	3,477	5,807	2,203
Net change in cash and cash equivalents during the period		(326)	1,406	(526)	(9,118)
Impact of foreign exchange on cash and cash equivalents		(48)	28	(219)	(15)
Cash and cash equivalents – Beginning of period		9,647	8,137	10,018	18,704
Cash and cash equivalents – End of period		9,273	9,571	9,273	9,571

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”).

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 February 8, 2023.

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, 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.

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	51	-	51
Depreciation	(122)	(163)	(285)
Currency translation adjustment	(30)	(4)	(34)
Net book value at December 31, 2022	423	530	953
As at December 31, 2022			
Cost	1,060	1,006	2,066
Accumulated depreciation	(637)	(476)	(1,113)
Net book value	423	530	953
As at March 31, 2022			
Cost	1,058	1,031	2,089
Accumulated depreciation	(534)	(334)	(868)
Net book value	524	697	1,221

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)

4 Intangible assets and goodwill

	Licences \$	Goodwill \$
Net book value at March 31, 2022	76,565	10,686
Additions	140	-
Amortization	(4,309)	-
Currency translation adjustment	(778)	(408)
Net book value at December 31, 2022	71,618	10,278
As at December 31, 2022		
Cost	92,190	10,278
Accumulated amortization	(20,572)	-
Net book value	71,618	10,278
As at March 31, 2022		
Cost	93,256	10,686
Accumulated amortization	(16,691)	-
Net book value	76,565	10,686

Intangible assets are reviewed for impairment when events or circumstances indicate that the carrying value of an asset may not be recoverable. The Company has confirmed that it expects further delays in the FDA review of treosulfan. However, the Company assessed the expected timing and outcome of the FDA review process, and concluded no impairment within its intangible assets.

5 Long-term debt

As at	Note	December 31, 2022 \$	March 31, 2022 \$
Credit facility	(a)	32,842	24,245
Deferred debt transaction costs		(152)	(406)
Lease liabilities		632	783
Long-term debt		33,322	24,622
Current		32,838	15,046
Non-current		484	9,576
Long-term debt		33,322	24,622

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)

(a) Credit facility

	Term Loan \$	ABL \$	Total \$
As at December 31, 2022			
Outstanding	10,000	22,842	32,842
Remaining available	N/A	849	849
Total credit facility	10,000	23,691	33,691
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 expiring on July 17, 2023 (the “Term Loan”). As at December 31, 2022, the \$10,000 balance due on the Term Loan is classified as a current liability as the maturity date of the Term Loan is within 12 months. The Company, together with its third-party advisors, is actively evaluating options with respect to its capital structure, including its debt financing arrangements, and is in the advanced stages of a competitive process that has involved a number of highly interested capital providers.

For interest periods ending on or before September 30, 2022, 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%. For interest periods ending after September 30, 2022, borrowings under the Term Loan bear interest at an annual rate of one-month Secured Overnight Financing Rate (including an appropriate successor index as applicable, “SOFR”), plus 6.50%, subject to a SOFR floor of 1.50%. As at December 31, 2022, \$10,000 of the Term Loan was outstanding with a weighted average interest rate of 10.89%.

The terms and conditions of the Term Loan include certain customary representations, warranties and covenants, including requirements to maintain a minimum net sales, subject to certain agreed-upon adjustments. As at December 31, 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 December 31, 2022, the \$22,842 balance due on the ABL Facility is classified as a current liability as the maturity of the credit facility is within 12 months.

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 Company, together with its third-party advisors, is actively evaluating options with respect to its capital structure, including its debt financing arrangements, and is in the advanced stages of a competitive process that has involved a number of highly interested capital providers.

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.

For interest periods ending on or before September 30, 2022, 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%. For interest periods ending after September 30, 2022, borrowings under the ABL Facility bear interest at an annual rate of SOFR plus 3.95%, subject to a SOFR floor of 1.50%. As at December 31, 2022, \$23,691 was available to the Company under the ABL Facility, of which \$22,842 was outstanding with a weighted average interest rate of 8.34%.

The terms and conditions of the ABL Facility include certain customary representations, warranties and covenants, including requirements to maintain a minimum net sales, subject to certain agreed-upon adjustments. As at December 31, 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	December 31, 2022 \$	March 31, 2022 \$
Convertible debentures issued in October 2018	32,692	30,929
Embedded derivative on convertible debentures	847	2,711
Deferred financing transaction costs	(353)	(689)
	<u>33,186</u>	<u>32,951</u>
Current	33,186	-
Non-current	-	32,951
	<u>33,186</u>	<u>32,951</u>

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 and subject to any required approvals, in whole or in part in common shares of the Company. As at December 31, 2022, the balance due on the convertible debentures is classified as a current liability as the maturity of the convertible debentures is within 12 months. 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 any required approvals, in whole or in part 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 common share, at a conversion price of C\$6.30.

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	December 31, 2022	March 31, 2022
Risk-free interest rate	4.0%	2.3%
Volatility*	97.5%	67.3%
Expected life	0.75 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	December 31, 2022 \$	March 31, 2022 \$
250 basis point increase to the assumed volatility rate Increase to fair value of the embedded derivative	94	249
250 basis point decrease to the assumed volatility rate Decrease to fair value of the embedded derivative	(89)	(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	1,345	485	1,830
Payment		-	(835)	(835)
Unrealized foreign exchange gain		1,489	-	1,489
Currency translation adjustment		(1,490)	-	(1,490)
Balance of payable at December 31, 2022		19,482	12,015	31,497
Current				3,402
Non-Current				28,095
Balance of payable at December 31, 2022				31,497

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 December 31, 2022	Three Months		Nine Months	
	Number of options	Weighted average exercise price C\$	Number of options	Weighted average exercise price C\$
Outstanding, beginning of period	1,040,697	4.35	821,626	5.18
Granted	56,530	2.40	337,012	2.14
Forfeited	(63,979)	5.78	(125,390)	5.40
Outstanding, end of period	1,033,248	4.16	1,033,248	4.16
Exercisable, end of period	540,468	4.83	540,468	4.83

Restricted stock units (RSUs)

Periods ended December 31, 2022	Three Months		Nine Months	
	Number of units	Weighted average exercise price C\$	Number of units	Weighted average exercise price C\$
Outstanding, beginning of period	706,366	0.01	695,050	0.01
Granted	-	0.01	109,375	0.01
Exercised	(249,203)	(0.01)	(347,262)	(0.01)
Outstanding, end of period	457,163	0.01	457,163	0.01
Exercisable, end of period	333,299	0.01	333,299	0.01

Performance stock units (PSUs)

Periods ended December 31, 2022	Three Months		Nine Months	
	Number of units	Weighted average exercise price C\$	Number of units	Weighted average exercise price C\$
Outstanding, beginning of period	266,796	0.01	248,613	0.01
Granted	510,989	0.01	541,855	0.01
Forfeited	(45,049)	(0.01)	(57,732)	(0.01)
Outstanding, end of period	732,736	0.01	732,736	0.01
Exercisable, end of 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)

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*	67.2%
Expected life	5 yrs
Expected dividend yield	NIL

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

For the three- and nine-month periods ended December 31, 2022, the share-based compensation expense with respect to these options, RSUs and PSUs amounted to \$436 (2021 – \$722) and \$1,070 (2021 – \$2,035). 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 December 31	Note	Three Months		Nine Months	
		2022	2021	2022	2021
		\$	\$	\$	\$
Employee benefit expense	12	6,093	5,526	18,402	16,383
Sales and marketing expense		2,571	2,049	8,738	7,745
Regulatory and business development		1,525	1,302	4,553	3,698
General administrative		1,689	1,802	5,171	6,314
		11,878	10,679	36,864	34,140

11 Financing costs

Periods ended December 31	Three Months		Nine Months	
	2022	2021	2022	2021
	\$	\$	\$	\$
Interest on convertible debentures	460	498	1,425	1,500
Interest accretion on convertible debentures, net of amort. of deferred financing costs	1,597	1,356	4,578	3,801
Interest on long-term debt, net of amort. of deferred financing costs	860	628	2,125	1,688
Interest accretion on balance of payable for business combination	623	664	1,830	2,097
Interest on lease liabilities	12	14	36	30
Interest expense	3,552	3,160	9,994	9,116

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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)

Periods ended December 31	Three Months		Nine Months	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries and benefits	4,168	3,561	12,920	10,584
Share-based compensation	79	139	267	461
	<u>4,247</u>	<u>3,700</u>	<u>13,187</u>	<u>11,045</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 December 31	Three Months		Nine Months	
	2022	2021	2022	2021
	\$	\$	\$	\$
Key management compensation				
Salaries and benefits	1,489	1,243	4,412	3,764
Share-based compensation	357	583	803	1,574
	<u>1,846</u>	<u>1,826</u>	<u>5,215</u>	<u>5,338</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 \$33 (2021 – \$41) for the three-month period, and \$177 (2021 – \$178) for the nine-month period ended December 31, 2022.
- b) Interest on convertible debentures which are owned or controlled, directly and indirectly, by two directors of the Company totaled \$69 (2021 – \$73) for the three-month period, and \$214 (2021 – \$220) for the nine-month period, ended December 31, 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 December 31	Three Months		Nine Months	
	2022	2021	2022	2021
	\$	\$	\$	\$
Decrease (increase) in				
Accounts receivable	(3,297)	(599)	(6,160)	4,098
Inventories	(811)	(1,761)	(1,529)	(1,550)
Prepaid expenses	(3,717)	1,313	(6,691)	50
Other current assets	(58)	232	72	519
Increase (decrease) in				
Accounts payable and accrued liabilities	1,285	(2,389)	(972)	(1,184)
	<u>(6,598)</u>	<u>(3,204)</u>	<u>(15,280)</u>	<u>1,933</u>

15 Geographic information

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

As at	December 31, 2022	March 31, 2022
	\$	\$
United States	70,482	73,753
Canada	13,952	16,361

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

Periods ended December 31	Three Months		Nine Months	
	2022	2021	2022	2021
	\$	\$	\$	\$
United States	21,523	15,448	57,362	37,304
Canada	7,208	5,822	22,101	19,134

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

	December 31, 2022		March 31, 2022	
	Fair value hierarchy	Fair value \$	Fair value hierarchy	Fair value \$
Financial liabilities				
Convertible debentures – Derivative	Level 2	847	Level 2	2,711
Balance of payable for business combinations	Level 3	31,497	Level 3	30,503

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 licenses commercial rights to treosulfan in the United States from medac GmbH under a February 2021 exclusive license agreement (the "U.S. Treosulfan Agreement"). Treosulfan is currently the subject of a regulatory review process with the FDA. medac is the party responsible for regulatory matters under the U.S. Treosulfan Agreement. Under the terms of the U.S. Treosulfan Agreement, it was agreed that, upon an FDA approval of treosulfan, the Company would become obligated to pay a milestone amount to medac of between

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)

\$15,000 and \$45,000 depending on the terms of the FDA's approval. Under the terms of a September 2021 amendment to the U.S. Treosulfan Agreement, it was further agreed that this amount would include repayment of a \$2.5 million credit received from medac in September 2021 in respect of previously paid milestone amounts. However, in light of the ongoing delay in the FDA's review of the treosulfan NDA, which the Company expects to continue beyond the agreed FDA approval outside date, the U.S. Treosulfan Agreement provides that the amount of this milestone payment, together with future sales-based milestones, will be subject to renegotiation and adjustment as to reflect changes in the perceived value of the product, including as a result of increases or decreases in patient population, changes in treatment landscape, changes in competition, and changes in market access as a result of the delay in securing FDA approval of the NDA.

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. Additionally, the Company's convertible debentures will mature on October 16, 2023, with repayment to be made in cash or, at the Company's option, in common shares of the Company. Accordingly, the total amount of those loans and convertible debentures appear as current liabilities in the Company's interim consolidated statements of financial position as at December 31, 2022. The Company, together with its third-party advisors, is actively evaluating options with respect to its capital structure, including its debt financing arrangements, and is in the advanced stages of a competitive process that has involved a number of highly interested capital providers. 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.