

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated
Financial Statements
(unaudited)

**For the three- and six-month periods ended
September 30, 2023**
(expressed in thousands of United States dollars)

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Financial Position (unaudited)

As at September 30, 2023 and March 31, 2023

(expressed in thousands of United States dollars)

	Note	September 30, 2023 \$	March 31, 2023 \$
Assets			
Current assets			
Cash and cash equivalents		19,501	13,069
Accounts receivable		22,659	22,381
Inventories		24,851	22,848
Prepays		10,222	12,376
Other current assets		2,246	2,295
		79,479	72,969
Property and equipment	3	894	899
Intangible assets	4	67,602	70,373
Goodwill	4	10,286	10,282
Deferred tax assets		7,917	6,806
		166,178	161,329
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		34,783	33,415
Income tax payable		2,322	1,183
Current portion of long-term debt	5	12,140	8,733
Convertible debentures – Host	6	36,218	33,973
Convertible debentures – Derivative	6	-	80
Balance of payable for business combinations	7	5,034	3,492
Other current liabilities		3,516	2,620
		94,013	83,496
Long-term debt	5	23,730	27,377
Balance of payable for business combination	7	26,694	28,008
		144,437	138,881
Shareholders' Equity			
Share capital		69,204	69,014
Contributed surplus		10,913	11,307
Cumulative translation adjustment		6,094	6,155
Deficit		(64,470)	(64,028)
		21,741	22,448
		166,178	161,329

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- and six-month periods ended September 30, 2023 and 2022

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

Periods ended September 30	Note	Three Months		Six Months	
		2023 \$	2022 \$	2023 \$	2022 \$
Revenue					
Products		30,326	27,686	61,881	50,732
Cost of sales					
Cost of sales of products		12,657	10,103	25,586	18,760
Amortization of product licences	4	1,391	1,439	2,779	2,884
		14,048	11,542	28,365	21,644
Gross profit		16,278	16,144	33,516	29,088
Selling and administrative expenses	10	11,911	12,861	23,810	24,986
Research and development expenses		741	856	1,182	1,517
Transaction-related fees & expenses		-	144	-	172
Termination benefits		-	238	-	238
Depreciation and amortization	3	72	98	130	195
Operating income		3,554	1,947	8,394	1,980
Financing costs	11	4,229	3,293	8,484	6,442
Convertible debentures – Unrealized gain on fair value of derivative		(75)	(113)	(82)	(2,352)
Foreign exchange loss		373	1,308	81	1,983
Loss before income taxes		(973)	(2,541)	(89)	(4,093)
Income tax expense (recovery)					
Current		1,085	108	1,442	119
Deferred		(965)	81	(1,089)	(84)
		120	189	353	35
Net loss		(1,093)	(2,730)	(442)	(4,128)
Other comprehensive income					
Foreign currency income on translation of foreign operations		572	1,855	(61)	2,721
Comprehensive loss		(521)	(875)	(503)	(1,407)
Net loss per share					
Basic and Diluted		(0.05)	(0.14)	(0.02)	(0.21)
Weighted average number of common shares outstanding		20,433,753	19,975,578	20,332,190	19,964,100

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, 2023 and 2022

(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, 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
		-	-	-	2,721	(4,128)	(1,407)
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
Balance – March 31, 2023		20,181,490	69,014	11,307	6,155	(64,028)	22,448
Net loss		-	-	-	-	(442)	(442)
Other comprehensive loss		-	-	-	(61)	-	(61)
		-	-	-	(61)	(442)	(503)
Issuance of shares for settling of warrants		132,299	101	(101)	-	-	-
Share-based compensation – Stock option plan		-	-	236	-	-	236
Share-based compensation – RSU plan	9	-	-	118	-	-	118
Share-based compensation – PSU plan	9	-	-	249	-	-	249
Issuance of shares for settling of RSUs	9	143,233	238	(343)	-	-	(105)
Issuance of shares for settling of PSUs	9	102,807	188	(553)	-	-	(365)
Bought deal offering - transaction fees		-	(337)	-	-	-	(337)
Balance – September 30, 2023		20,559,829	69,204	10,913	6,094	(64,470)	21,741

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, 2023 and 2022

(expressed in thousands of United States dollars)

Periods ended September 30	Note	Three Months		Six Months	
		2023 \$	2022 \$	2023 \$	2022 \$
Operating activities					
Net loss		(1,093)	(2,730)	(442)	(4,128)
Adjustments for					
Depreciation and amortization	3	72	98	130	195
Amortization of product licences	4	1,391	1,439	2,779	2,884
Share-based compensation expense	9	(128)	224	133	527
Interest expense	11	4,229	3,293	8,484	6,442
Convertible debentures – Unrealized gain on fair value of derivative		(75)	(113)	(82)	(2,352)
Unrealized foreign exchange loss		361	1,301	26	1,976
Income tax expense		120	189	353	35
		4,877	3,701	11,381	5,579
Changes in non-cash operating working capital items	14	2,777	(2,789)	488	(8,682)
Income taxes paid		(303)	-	(303)	-
Cash provided (used) by operating activities		7,351	912	11,566	(3,103)
Investing activities					
Purchases of property and equipment		(16)	(16)	(44)	(32)
Purchases of intangible assets		-	(142)	-	(142)
Business acquisition deferred payment	7	(576)	(165)	(1,145)	(314)
Cash used by investing activities		(592)	(323)	(1,189)	(488)
Financing activities					
Interest paid		(1,080)	(1,513)	(2,015)	(2,000)
Draw of Asset-Based Loan, net		-	3,414	-	5,486
Repayment of long- and short-term debt		(438)	-	(438)	-
Repayment of lease liabilities		(16)	(34)	(49)	(95)
Repurchase of convertible debentures	6	(1,428)	-	(1,428)	-
Cash provided (used) by financing activities		(2,962)	1,867	(3,930)	3,391
Net change in cash and cash equivalents during the period		3,797	2,456	6,447	(200)
Impact of foreign exchange on cash and cash equivalents		(78)	(94)	(15)	(171)
Cash and cash equivalents – Beginning of period		15,782	7,285	13,069	10,018
Cash and cash equivalents – End of period		19,501	9,647	19,501	9,647

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 specialty 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 10 King Street East, Suite 600, Toronto, Ontario. The Company’s 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, 2023.

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 Medexus Pharmaceuticals, Inc., the Company’s parent company, is Canadian Dollars. The Company has subsidiaries that have the United States dollar as their 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, 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 September 30, 2023, 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, 2023.

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, 2023	403	496	899
Additions	44	80	124
Depreciation	(58)	(72)	(130)
Currency translation adjustment	1	-	1
Net book value at September 30, 2023	390	504	894
As at September 30, 2023			
Cost	1,119	779	1,898
Accumulated depreciation	(729)	(275)	(1,004)
Net book value	390	504	894
As at March 31, 2023			
Cost	1,073	700	1,773
Accumulated depreciation	(670)	(204)	(874)
Net book value	403	496	899

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, 2023	70,373	10,282
Amortization	(2,779)	-
Currency translation adjustment	8	4
	<hr/>	<hr/>
Net book value at September 30, 2023	67,602	10,286
	<hr/>	<hr/>
As at September 30, 2023		
Cost	92,265	10,286
Accumulated amortization	(24,663)	-
	<hr/>	<hr/>
Net book value	67,602	10,286
	<hr/>	<hr/>
As at March 31, 2023		
Cost	92,256	10,282
Accumulated amortization	(21,883)	-
	<hr/>	<hr/>
Net book value	70,373	10,282
	<hr/>	<hr/>

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

5 Long-term debt

As at	Note	September 30, 2023 \$	March 31, 2023 \$
Credit facility	(a)	38,060	38,500
Deferred debt transaction costs		(2,818)	(2,988)
Lease liabilities		628	598
		<hr/>	<hr/>
Long-term debt		35,870	36,110
		<hr/>	<hr/>
Current		12,140	8,733
Non-current		23,730	27,377
		<hr/>	<hr/>
Long-term debt		35,870	36,110
		<hr/>	<hr/>

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 \$	Revolver \$	Total \$
As at September 30, 2023			
Outstanding	34,560	3,500	38,060
Remaining available	18,000	-	18,000
Total credit facility	52,560	3,500	56,060
As at March 31, 2023			
Outstanding	35,000	3,500	38,500
Remaining available	N/A	-	-
Total credit facility	35,000	3,500	38,500

BMO Credit Facility

On March 8, 2023, the Company entered into a definitive credit agreement (“BMO credit agreement”) with a syndicate of lenders agented by Bank of Montreal (“BMO”) in respect of a \$35,000 secured term loan having a term of 36 months, maturing on March 8, 2026 (the “Term Loan”). The BMO credit agreement also includes a \$3,500 revolving loan maturing on March 8, 2026 (the “Revolver”).

On September 5, 2023, the Company entered into an amendment to the BMO credit agreement. The amendment provided for an \$18,000 increase in the Term Loan commitment under the accordion feature of the Term Loan facility, among other amendments. The Company drew down the full \$18,000 subsequent to period end, on October 4, 2023, and applied the full amount toward repayment of the Company’s convertible debentures (see note 6) upon their maturity on October 16, 2023.

The Term Loan is subject to an amortization schedule requiring that the principal amount be repaid on the last business day of each calendar quarter, on the basis of 5% per annum during the six months following the initial March 2023 funding date, 10% per annum during the subsequent three months, 20% per annum during the next subsequent three months, and 25% per annum during the remainder of the term, with the remaining balance due at maturity of the BMO credit agreement.

Borrowings under the BMO credit agreement bear interest at an annual rate of adjusted term Secured Overnight Financing Rate (“SOFR”), plus a margin determined quarterly based on the Company’s consolidated leverage ratio. As at September 30, 2023, \$34,560 of the Term Loan and \$3,500 of the Revolver were outstanding with a weighted average interest rate of 8.20%.

The terms and conditions of the BMO credit agreement include certain customary representations, warranties and covenants, including requirements to stay below a maximum leverage ratio, and maintain a minimum fixed charge coverage ratio. As at September 30, 2023, the Company was in compliance with these financial covenants and all of the terms and conditions of its long-term debt agreements.

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)

6 Convertible debentures

As at	September 30, 2023	March 31, 2023
	\$	\$
Convertible debentures issued in October 2018	36,240	34,224
Embedded derivative on convertible debentures	-	80
Deferred financing transaction costs	(22)	(251)
	36,218	34,053
Current	36,218	34,053
Non-current	-	-
	36,218	34,053

Convertible debentures issued in October 2018

The convertible debentures matured subsequent to period end, on October 16, 2023, and convertible debentures not previously converted by the holders were repaid in full by the Company with a payment equal to 125% of the outstanding principal amount, together with all accrued and unpaid interest. The convertible debentures bore interest at a rate of 6.0% per annum beginning October 16, 2018, payable semiannually in arrears on each March 31 and September 30, with the exception of the September 30, 2023 interest payment, which was paid at maturity in accordance with the terms of the indenture governing the convertible debentures.

The terms of the convertible debentures provided that holders were entitled to elect to convert their convertible debentures into equity units at a conversion price of C\$6.30, with each unit comprising one common share and one half of one warrant to purchase one common share, with each whole warrant exercisable at a price of C\$9.45 per whole warrant until October 16, 2023.

The convertible debentures are a compound financial instrument under IAS 32 and have both a liability and an embedded derivative component. The derivative is measured at FVPTL, and its fair value must be measured at each reporting period with subsequent changes in fair value recorded in the consolidated statement of loss.

The derivative was valued using a convertible bond valuation model with the following key assumptions:

As at	September 30, 2023	March 31, 2023
Risk-free interest rate	5.0%	3.8%
Volatility*	45.6%	91.8%
Expected life	0.0 yrs	0.5 yrs

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

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 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 income (loss) and other comprehensive income (loss).

As at	September 30, 2023 \$	March 31, 2023 \$
250 basis point increase to the assumed volatility rate Increase to fair value of the embedded derivative	-	26
250 basis point decrease to the assumed volatility rate Decrease to fair value of the embedded derivative	-	(15)

NCIB purchase and maturity of convertible debentures

In May 2023, the Toronto Stock Exchange accepted the Company's notice of intention to make a normal course issuer bid for its convertible debentures ("2023 NCIB"). The 2023 NCIB expired in accordance with its terms upon the maturity of the convertible debentures subsequent to period end, on October 16, 2023. On July 18, the Company repurchased C\$1,736 principal amount of its convertible debentures under the 2023 NCIB.

In connection with the maturity of the Convertible Debentures on October 16 2023, the Company made in cash the final maturity date payment of C\$51,065 (or approximately \$37,500) to Computershare Trust Company of Canada as trustee for holders of the convertible debentures. Following their October 16, 2023 maturity date, the convertible debentures are no longer outstanding.

7 Balance of payable for business combination

	Note	Medac \$	Aptevo \$	Total \$
Net book value at March 31, 2023		18,725	12,775	31,500
Interest accretion	11	771	602	1,373
Payment		-	(1,145)	(1,145)
Foreign exchange gain		(20)	-	(20)
Currency translation adjustment		20	-	20
Balance of payable at September 30, 2023		19,496	12,232	31,728
Current				5,034
Non-Current				26,694
Balance of payable at September 30, 2023				31,728

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)

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 BioTherapeutics LLC 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 September 30, 2022, and (ii) 5% of net sales thereafter until March 1, 2035. In addition, the purchase agreement requires the Company to make certain milestone payments upon IXINITY®'s receipt of regulatory approval in each of Canada, Germany, France, Spain, Italy and the United Kingdom, and upon IXINITY® achieving worldwide annual net sales of \$120,000; in each case only 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.

9 Share-based compensation

Stock options

Periods ended September 30, 2023	Three Months		Six Months	
	Number of options	Weighted average exercise price C\$	Number of options	Weighted average exercise price C\$
Outstanding, beginning of period	1,003,490	3.98	1,057,973	3.91
Forfeited	(47,531)	(4.79)	(102,014)	(3.64)
Outstanding, end of period	955,959	3.94	955,959	3.94
Exercisable, end of period	757,542	3.88	757,542	3.88

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

Restricted stock units (RSUs)	Three Months		Six Months	
	Number of units	Weighted average exercise price C\$	Number of units	Weighted average exercise price C\$
Periods ended September 30, 2023				
Outstanding, beginning of period	259,552	0.01	353,187	0.01
Granted	88,608	0.01	88,608	0.01
Exercised	(122,274)	(0.01)	(190,553)	(0.01)
Forfeited	(1,265)	(0.01)	(26,621)	(0.01)
Outstanding, end of period	224,621	0.01	224,621	0.01
Exercisable, end of period	128,420	0.01	128,420	0.01

Performance stock units (PSUs)	Three Months		Six Months	
	Number of units	Weighted average exercise price C\$	Number of units	Weighted average exercise price C\$
Periods ended September 30, 2023				
Outstanding, beginning of period	804,609	0.01	885,341	0.01
Exercised	(221,968)	(0.01)	(286,266)	(0.01)
Forfeited	(19,079)	(0.01)	(35,513)	(0.01)
Outstanding, end of period	563,562	0.01	563,562	0.01
Exercisable, end of period	-	-	-	-

For the three- and six-month periods ended September 30, 2023, the share-based compensation expense with respect to these options, RSUs and PSUs amounted to \$308 (2022 – \$331) and \$603 (2022 – \$634). 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	
		2023	2022	2023	2022
		\$	\$	\$	\$
Employee benefit expense	12	5,863	6,357	11,691	12,309
Sales and marketing expense		2,912	3,025	5,846	6,167
Regulatory and business development		1,625	1,599	3,133	3,028
General administrative		1,511	1,880	3,140	3,482
		11,911	12,861	23,810	24,986

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

11 Financing costs

Periods ended September 30	Three Months		Six Months	
	2023	2022	2023	2022
	\$	\$	\$	\$
Interest on convertible debentures	422	477	891	965
Interest accretion on convertible debentures, net of amort. of deferred financing costs	1,821	1,471	3,657	2,981
Interest on long-term debt, net of amort. of deferred financing costs	1,289	724	2,541	1,265
Interest accretion on balance of payable for business combination	685	610	1,373	1,207
Interest on lease liabilities	12	11	22	24
Interest expense	4,229	3,293	8,484	6,442

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	
	2023	2022	2023	2022
	\$	\$	\$	\$
Salaries and benefits	4,070	4,544	8,184	8,752
Share-based compensation	34	61	159	188
	4,104	4,605	8,343	8,940

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	
	2023	2022	2023	2022
	\$	\$	\$	\$
Key management compensation				
Salaries and benefits	1,485	1,482	2,904	2,923
Share-based compensation	274	270	444	446
	1,759	1,752	3,348	3,369

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 and other fees to a company in which a named executive officer holds a 50% equity interest for customary storage, distribution, and other related services in respect of certain of the

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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)

Company's products in Canada. These fees totaled \$60 (2022 - \$68) for the three-month period, and \$123 (2021 - \$144) for the six-month periods ended September 30, 2023.

- b) Interest on convertible debentures which are owned or controlled, directly and indirectly, by two directors (2022 – three directors) of the Company totaled \$4 (2022 – \$72) for the three-month period, and \$8 (2022 – \$145) for the six-month period ended September 30, 2023. All interest payments are made in accordance with the terms of the convertible debentures.

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	
	2023	2022	2023	2022
	\$	\$	\$	\$
Decrease (increase) in				
Accounts receivable	3,198	(2,458)	(271)	(2,863)
Inventories	(14)	103	(2,025)	(718)
Prepaid expenses	220	(1,707)	2,153	(2,974)
Other current assets	(14)	(11)	(14)	130
Increase (decrease) in				
Accounts payable and accrued liabilities	(613)	1,284	645	(2,257)
	<u>2,777</u>	<u>(2,789)</u>	<u>488</u>	<u>(8,682)</u>

15 Geographic information

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

As at	September 30, 2023	March 31, 2023
	\$	\$
United States	68,286	69,775
Canada	18,413	18,585

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

Periods ended September 30	Three Months		Six Months	
	2023	2022	2023	2022
	\$	\$	\$	\$
United States	21,764	20,028	42,877	35,839
Canada	8,562	7,658	19,004	14,893

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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, 2023 and March 31, 2023, other financial instruments measured at fair value in the consolidated statements of financial position were as follows:

	September 30, 2023		March 31, 2023	
	Fair value hierarchy	Fair value \$	Fair value hierarchy	Fair value \$
Financial liabilities				
Convertible debentures – Derivative	Level 2	-	Level 2	80
Balance of payable for business combinations	Level 3	31,728	Level 3	31,500

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 and balance of payable for business combination.

medac GmbH (“medac”), in collaboration with the Company, is currently applying for the FDA’s approval for treosulfan in the United States. Under the Company’s February 2021 exclusive license agreement relating to treosulfan (the “U.S. Treosulfan Agreement”), upon an FDA approval of treosulfan, the Company would have become obligated to pay a milestone amount to medac of between \$15,000 and \$45,000 depending on the terms of the FDA’s approval. However, in light of the ongoing delay in the process for obtaining FDA approval under the US Treosulfan Agreement, in September 2023, the Company and medac entered into a third amendment to

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the US Treosulfan Agreement. Among other things, the third amendment extends the agreed outside date for FDA approval to reflect the current status of the FDA regulatory review process, and provides that, if and when the FDA accepts medac's resubmission of the treosulfan NDA, the parties will then discuss any adjustments to the value of unpaid regulatory and sales-based milestone payments that the parties may agree are appropriate in the then-prevailing circumstances. The Company will have no obligation to make any milestone payments before the effective date of a further amendment (if any) reflecting any such adjustments.

17 Subsequent events

Amendment to BMO credit agreement

On September 5, 2023, the Company entered into an amendment to the BMO credit agreement. The amendment provided for an \$18,000 increase in the Term Loan commitment under the accordion feature of the Term Loan facility, among other amendments. The Company drew down the full \$18,000 subsequent to period end, on October 4, 2023, and applied the full amount toward repayment of the Company's convertible debentures upon their maturity on October 16, 2023.

Bought Deal Public Offering of Shares

On October 6, 2023, the Company completed a bought-deal public offering of 3,389,900 units at a price of C\$2.95 per unit for aggregate gross proceeds of C\$10,000. The underwriting agreement provided for a customary overallotment option for the sole underwriter to purchase up to 508,484 additional units. On October 17, 2023, the Company issued all 508,484 additional units for additional gross proceeds of C\$1,500, resulting in the issuance of an aggregate of 3,898,384 units for C\$11,500 aggregate gross proceeds in connection with the offering.

Each unit issued in the offering consisted of one common share and one-half of one common share purchase warrant. Each such warrant entitles the holder to purchase one common share at an exercise price of C\$3.65 at any time through April 6, 2026. The warrants are issued under a common share purchase warrant indenture with Odyssey Trust Company as warrant agent.

In connection with the offering, the Company also issued to the sole underwriter, as partial consideration for its services in connection with the offering, warrants to purchase up to 233,903 common shares at an exercise price of C\$2.95 at any time through April 6, 2026.

Maturity of convertible debentures

In connection with the maturity of the Company's convertible debentures on October 16, 2023, the Company made in cash the final maturity date payment of C\$51,065 (or approximately \$37,500 million) to Computershare Trust Company of Canada as trustee for holders of the convertible debentures. Following their October 16, 2023, maturity date, the convertible debentures are no longer outstanding.