

Medexus Pharmaceuticals Inc.

Condensed Interim Consolidated
Financial Statements
(unaudited)

**For the three- and nine-month periods ended
December 31, 2023**
(expressed in thousands of United States dollars)

Medexus Pharmaceuticals Inc.

Interim Consolidated Statements of Financial Position
(unaudited)

As at December 31, 2023 and March 31, 2023

(expressed in thousands of United States dollars)

| | Note | December 31, 2023 \$ | March 31, 2023 \$ |
|--|------|----------------------------|-------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 8,213 | 13,069 |
| Accounts receivable | | 22,227 | 22,381 |
| Inventories | | 27,461 | 22,848 |
| Prepays | | 13,833 | 12,376 |
| Other current assets | | 2,346 | 2,295 |
| | | 74,080 | 72,969 |
| Property and equipment | 3 | 843 | 899 |
| Intangible assets | 4 | 66,391 | 70,373 |
| Goodwill | 4 | 10,396 | 10,282 |
| Deferred tax assets | | 8,667 | 6,806 |
| | | 160,377 | 161,329 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 43,354 | 33,415 |
| Income tax payable | | 1,754 | 1,183 |
| Current portion of long-term debt | 5 | 15,078 | 8,733 |
| Convertible debentures – Host | 6 | - | 33,973 |
| Convertible debentures – Derivative | 6 | - | 80 |
| Balance of payable for business combinations | 7 | 3,544 | 3,492 |
| Other current liabilities | | 2,747 | 2,620 |
| | | 66,477 | 83,496 |
| Long-term debt | 5 | 37,210 | 27,377 |
| Balance of payable for business combination | 7 | 27,128 | 28,008 |
| | | 130,815 | 138,881 |
| Shareholders' Equity | | | |
| Share capital | | 76,390 | 69,014 |
| Contributed surplus | | 11,880 | 11,307 |
| Cumulative translation adjustment | | 6,296 | 6,155 |
| Deficit | | (65,004) | (64,028) |
| | | 29,562 | 22,448 |
| | | 160,377 | 161,329 |

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, 2023 and 2022

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

| Periods ended December 31 | Note | Three Months | | Nine Months | |
|--|------|-------------------|-------------------|-------------------|-------------------|
| | | 2023 \$ | 2022 \$ | 2023 \$ | 2022 \$ |
| Revenue | | | | | |
| Products | | 25,211 | 28,731 | 87,092 | 79,463 |
| Cost of sales | | | | | |
| Cost of sales of products | | 11,131 | 11,373 | 36,717 | 30,133 |
| Amortization of product licences | 4 | 1,387 | 1,425 | 4,166 | 4,309 |
| | | 12,518 | 12,798 | 40,883 | 34,442 |
| Gross profit | | 12,693 | 15,933 | 46,209 | 45,021 |
| Selling and administrative expenses | 10 | 10,692 | 11,878 | 34,502 | 36,864 |
| Research and development expenses | | 372 | 693 | 1,554 | 2,210 |
| Transaction-related fees & expenses | | - | - | - | 172 |
| Termination benefits | | - | 372 | - | 610 |
| Depreciation and amortization | 3 | 61 | 90 | 191 | 285 |
| Operating income | | 1,568 | 2,900 | 9,962 | 4,880 |
| Financing costs | 11 | 2,656 | 3,552 | 11,140 | 9,994 |
| Convertible debentures – Unrealized loss (gain) on fair value of derivative | | - | 646 | (82) | (1,706) |
| Foreign exchange loss (gain) | | (293) | (338) | (212) | 1,645 |
| Loss before income taxes | | (795) | (960) | (884) | (5,053) |
| Income tax expense (recovery) | | | | | |
| Current | | 511 | 477 | 1,953 | 596 |
| Deferred | | (772) | 70 | (1,861) | (14) |
| | | (261) | 547 | 92 | 582 |
| Net loss | | (534) | (1,507) | (976) | (5,635) |
| Other comprehensive income (loss) | | | | | |
| Foreign currency income (loss) on translation of foreign operations | | 202 | (302) | 141 | 2,419 |
| Comprehensive loss | | (332) | (1,809) | (835) | (3,216) |
| Net loss per share | | | | | |
| Basic and Diluted | | (0.02) | (0.07) | (0.05) | (0.28) |
| Weighted average number of common shares outstanding | | 24,182,551 | 20,037,954 | 21,611,790 | 19,988,774 |

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, 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 | | - | - | - | - | (5,635) | (5,635) |
| Other comprehensive income | | - | - | - | 2,419 | - | 2,419 |
| | | - | - | - | 2,419 | (5,635) | 3,216 |
| 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 |
| Balance – March 31, 2023 | | 20,181,490 | 69,014 | 11,307 | 6,155 | (64,028) | 22,448 |
| Net loss | | - | - | - | - | (976) | (976) |
| Other comprehensive income | | - | - | - | 141 | - | 141 |
| | | - | - | - | 141 | (976) | (835) |
| Issuance of shares for settling of warrants | | 132,299 | 101 | (101) | - | - | - |
| Share-based compensation – Stock option plan | | - | - | 274 | - | - | 274 |
| Share-based compensation – RSU plan | 9 | - | - | 195 | - | - | 195 |
| Share-based compensation – PSU plan | 9 | - | - | 345 | - | - | 345 |
| 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) |
| Common shares issued under bought deal offering | 8 | 3,898,384 | 6,849 | 756 | - | - | 7,605 |
| Balance – December 31, 2023 | | 24,458,213 | 76,390 | 11,880 | 6,296 | (65,004) | 29,562 |

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, 2023 and 2022

(expressed in thousands of United States dollars)

| Periods ended December 31 | Note | Three Months | | Nine Months | |
|--|------|-----------------|--------------|----------------|---------------|
| | | 2023 \$ | 2022 \$ | 2023 \$ | 2022 \$ |
| Operating activities | | | | | |
| Net loss | | (534) | (1,507) | (976) | (5,635) |
| Adjustments for | | | | | |
| Depreciation and amortization | 3 | 61 | 90 | 191 | 285 |
| Amortization of product licences | 4 | 1,387 | 1,425 | 4,166 | 4,309 |
| Share-based compensation expense | 9 | 211 | 290 | 344 | 817 |
| Interest expense | 11 | 2,656 | 3,552 | 11,140 | 9,994 |
| Convertible debentures – Unrealized loss (gain) on fair value of derivative | | - | 646 | (82) | (1,706) |
| Unrealized foreign exchange loss (gain) | | (398) | (439) | (372) | 1,537 |
| Income tax expense | | (261) | 547 | 92 | 582 |
| | | 3,122 | 4,604 | 14,503 | 10,183 |
| Changes in non-cash operating working capital items | 14 | 3,499 | (6,598) | 3,987 | (15,280) |
| Income taxes paid | | (1,080) | (210) | (1,383) | (210) |
| Cash provided (used) by operating activities | | 5,541 | (2,204) | 17,107 | (5,307) |
| Investing activities | | | | | |
| Purchases of property and equipment | | (4) | (17) | (48) | (51) |
| Purchases of intangible assets | | - | - | - | (140) |
| Business acquisition deferred payment | 7 | (1,747) | (521) | (2,892) | (835) |
| Cash used by investing activities | | (1,751) | (538) | (2,940) | (1,026) |
| Financing activities | | | | | |
| Interest paid | | (970) | (643) | (2,985) | (2,643) |
| Draw of Asset-Based Loan, net | | - | 3,112 | - | 8,598 |
| Net proceeds from BMO credit facility | 5 | 17,584 | - | 17,584 | - |
| Net proceeds from equity financings | 8 | 7,606 | - | 7,606 | - |
| Repayment of long- and short-term debt | | (1,762) | - | (2,200) | - |
| Repayment of lease liabilities | | (44) | (53) | (93) | (148) |
| Repurchase of convertible debentures | | - | - | (1,428) | - |
| Repayment of convertible debentures | 6 | (37,572) | - | (37,572) | - |
| Cash provided (used) by financing activities | | (15,158) | 2,416 | (19,088) | 5,807 |
| Net change in cash and cash equivalents during the period | | (11,368) | (326) | (4,921) | (526) |
| Impact of foreign exchange on cash and cash equivalents | | 80 | (48) | 65 | (219) |
| Cash and cash equivalents – Beginning of period | | 19,501 | 9,647 | 13,069 | 10,018 |
| Cash and cash equivalents – End of period | | 8,213 | 9,273 | 8,213 | 9,273 |

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 February 7, 2024.

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, 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 | 48 | 80 | 128 |
| Depreciation | (80) | (111) | (191) |
| Currency translation adjustment | 6 | 1 | 7 |
| Net book value at December 31, 2023 | 377 | 466 | 843 |
| As at December 31, 2023 | | | |
| Cost | 1,135 | 781 | 1,916 |
| Accumulated depreciation | (758) | (315) | (1,073) |
| Net book value | 377 | 466 | 843 |
| 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 | (4,166) | - |
| Currency translation adjustment | 184 | 114 |
| | <hr/> | <hr/> |
| Net book value at December 31, 2023 | 66,391 | 10,396 |
| | <hr/> | <hr/> |
| As at December 31, 2023 | | |
| Cost | 92,596 | 10,396 |
| Accumulated amortization | (26,205) | - |
| | <hr/> | <hr/> |
| Net book value | 66,391 | 10,396 |
| | <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 | December 31, 2023 \$ | March 31, 2023 \$ |
|---------------------------------|-------------------------------------|-------------------------|
| Credit facility – Term Loan | 50,800 | 35,000 |
| Credit facility – Revolver | 3,500 | 3,500 |
| Deferred debt transaction costs | (2,598) | (2,988) |
| Lease liabilities | 586 | 598 |
| | <hr/> | <hr/> |
| Long-term debt | 52,288 | 36,110 |
| | <hr/> | <hr/> |
| Current | 15,078 | 8,733 |
| Non-current | 37,210 | 27,377 |
| | <hr/> | <hr/> |
| Long-term debt | 52,288 | 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)

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 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 December 31, 2023, \$50,800 of the Term Loan and \$3,500 of the Revolver were outstanding with a weighted average interest rate of 8.22%.

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 December 31, 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 | December 31, 2023 \$ | March 31, 2023 \$ |
|---|----------------------------|-------------------------|
| Convertible debentures issued in October 2018 | - | 34,224 |
| Embedded derivative on convertible debentures | - | 80 |
| Deferred financing transaction costs | - | (251) |
| | <u>-</u> | <u>34,053</u> |
| Current | - | 34,053 |
| Non-current | - | - |
| | <u>-</u> | <u>34,053</u> |

The convertible debentures matured 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.

On October 16 2023, the Company made in cash the final maturity date payment of C\$51,065 (\$37,572) 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 | 1,170 | 898 | 2,068 |
| Payment | | (1,218) | (1,674) | (2,892) |
| Foreign exchange gain | | (458) | - | (458) |
| Currency translation adjustment | | 454 | - | 454 |
| Balance of payable at December 31, 2023 | | <u>18,673</u> | <u>11,999</u> | <u>30,672</u> |
| Current | | | | 3,544 |
| Non-Current | | | | <u>27,128</u> |
| Balance of payable at December 31, 2023 | | | | <u>30,672</u> |

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 \$2,327 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.

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 (approx. \$7,400). The underwriting agreement provided for a customary over-allotment 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 (approx. \$1,100), resulting in the issuance of an aggregate of 3,898,384 units for C\$11,500 (approx. \$8,500) 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.

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 | Three Months | | Nine Months | |
|--|--------------------------|--|--------------------------|--|
| | Number of options | Weighted average exercise price C\$ | Number of options | Weighted average exercise price C\$ |
| Periods ended December 31, 2023 | | | | |
| Outstanding, beginning of period | 955,959 | 3.94 | 1,057,973 | 3.91 |
| Forfeited | (93,521) | (3.42) | (195,535) | (3.54) |
| Outstanding, end of period | 862,438 | 4.00 | 862,438 | 4.00 |
| Exercisable, end of period | 700,055 | 3.92 | 700,055 | 3.92 |

| Restricted stock units (RSUs) | Three Months | | Nine Months | |
|--|------------------------|--|------------------------|--|
| | Number of units | Weighted average exercise price C\$ | Number of units | Weighted average exercise price C\$ |
| Periods ended December 31, 2023 | | | | |
| Outstanding, beginning of period | 224,621 | 0.01 | 353,187 | 0.01 |
| Granted | 445,221 | 0.01 | 533,829 | 0.01 |
| Exercised | - | - | (190,553) | (0.01) |
| Forfeited | (300) | (0.01) | (26,921) | (0.01) |
| Outstanding, end of period | 669,542 | 0.01 | 669,542 | 0.01 |
| Exercisable, end of period | 136,013 | 0.01 | 136,013 | 0.01 |

| Performance stock units (PSUs) | Three Months | | Nine Months | |
|--|------------------------|--|------------------------|--|
| | Number of units | Weighted average exercise price C\$ | Number of units | Weighted average exercise price C\$ |
| Periods ended December 31, 2023 | | | | |
| Outstanding, beginning of period | 563,562 | 0.01 | 885,341 | 0.01 |
| Exercised | - | - | (286,266) | (0.01) |
| Forfeited | (5,665) | (0.01) | (41,178) | (0.01) |
| Outstanding, end of period | 557,897 | 0.01 | 557,897 | 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)

For the three- and nine-month periods ended December 31, 2023, the share-based compensation expense with respect to these options, RSUs and PSUs amounted to \$211 (2022 – \$436) and \$814 (2022 – \$1,070). 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 | |
|-------------------------------------|------|---------------|---------------|---------------|---------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | \$ | \$ | \$ | \$ |
| Employee benefit expense | 12 | 5,245 | 6,093 | 16,936 | 18,402 |
| Sales and marketing expense | | 2,610 | 2,571 | 8,456 | 8,738 |
| Regulatory and business development | | 1,576 | 1,525 | 4,709 | 4,553 |
| General administrative | | 1,261 | 1,689 | 4,401 | 5,171 |
| | | 10,692 | 11,878 | 34,502 | 36,864 |

11 Financing costs

| Periods ended December 31 | Three Months | | Nine Months | |
|---|--------------|--------------|---------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$ | \$ | \$ | \$ |
| Interest on convertible debentures | 77 | 460 | 968 | 1,425 |
| Interest accretion on convertible debentures, net of amort. of deferred financing costs | 607 | 1,597 | 4,264 | 4,578 |
| Interest on long-term debt, net of amort. of deferred financing costs | 1,267 | 860 | 3,808 | 2,125 |
| Interest accretion on balance of payable for business combination | 695 | 623 | 2,068 | 1,830 |
| Interest on lease liabilities | 10 | 12 | 32 | 36 |
| Interest expense | 2,656 | 3,552 | 11,140 | 9,994 |

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 | |
|---------------------------|--------------|--------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$ | \$ | \$ | \$ |
| Salaries and benefits | 3,708 | 4,168 | 11,892 | 12,920 |
| Share-based compensation | 87 | 79 | 246 | 267 |
| | 3,795 | 4,247 | 12,138 | 13,187 |

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)

- 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 | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$ | \$ | \$ | \$ |
| Key management compensation | | | | |
| Salaries and benefits | 1,326 | 1,489 | 4,230 | 4,412 |
| Share-based compensation | 124 | 357 | 568 | 803 |
| | <u>1,450</u> | <u>1,846</u> | <u>4,798</u> | <u>5,215</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 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 Company's products in Canada. These fees totaled \$69 (2022 - \$33) for the three-month period, and \$192 (2021 - \$177) for the nine-month periods ended December 31, 2023.
- b) Interest on convertible debentures which are owned or controlled, directly and indirectly, by two directors (2022 - two directors) of the Company totaled \$3 (2022 - \$69) for the three-month period, and \$11 (2022 - \$214) for the nine-month period ended December 31, 2023. All interest payments are made in accordance with the terms of the convertible debentures. On maturity of the convertible debentures on October 16, 2023 the Company made principal payments totaling \$312 to these two directors.

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 | |
|--|--------------|----------------|--------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$ | \$ | \$ | \$ |
| Decrease (increase) in | | | | |
| Accounts receivable | 484 | (3,297) | 213 | (6,160) |
| Inventories | (2,411) | (811) | (4,436) | (1,529) |
| Prepaid expenses | (3,597) | (3,717) | (1,444) | (6,691) |
| Other current assets | (5) | (58) | (19) | 72 |
| Increase (decrease) in | | | | |
| Accounts payable and accrued liabilities | 9,028 | 1,285 | 9,673 | (972) |
| | <u>3,499</u> | <u>(6,598)</u> | <u>3,987</u> | <u>(15,280)</u> |

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 Geographic information

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

| As at | December 31, 2023 \$ | March 31, 2023 \$ |
|---------------|-------------------------------------|----------------------------------|
| United States | 68,342 | 69,775 |
| Canada | 17,955 | 18,585 |

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

| Periods ended December 31 | Three Months | | Nine Months | |
|----------------------------------|---------------------|--------------------|--------------------|--------------------|
| | 2023 \$ | 2022 \$ | 2023 \$ | 2022 \$ |
| United States | 16,635 | 21,523 | 59,512 | 57,362 |
| Canada | 8,576 | 7,208 | 27,580 | 22,101 |

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.

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

| | December 31, 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 | 30,672 | 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 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 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 Event

In January 2024, the Company formulated and implemented a cost reduction initiative due to changing business conditions affecting its operations. As part of this initiative, the Company incurred termination benefits paid to departing personnel. These personnel reductions included a reduction in allocation of sales force resources to IXINITY and to Rasuvo.