

FSD Pharma Inc.

Condensed consolidated interim financial statements

For the three months ended March 31, 2022, and 2021
(unaudited) (expressed in United States dollars, except per share amounts)

FSD PHARMA INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

[unaudited] [expressed in United States dollar]

As at		March 31, 2022	December 31, 2021
	Notes	\$	\$
ASSETS			
Current assets			
Cash		28,572,884	35,259,645
Other receivables	4	707,079	500,964
Prepaid expenses and deposits	5	1,578,861	1,366,421
Investments	6	—	158,036
		<u>30,858,824</u>	<u>37,285,066</u>
Assets held for sale	3	<u>8,773,856</u>	<u>8,647,779</u>
		39,632,680	45,932,845
Non-current assets			
Equipment, net		13,060	—
Investments	6	540,203	660,226
Right-of-use asset, net	7	147,146	168,307
Intangible assets, net	8	15,376,455	16,201,739
		<u>55,709,544</u>	<u>62,963,117</u>
LIABILITIES			
Current liabilities			
Trade and other payables	9	7,873,788	7,510,771
Lease obligations	10	159,895	124,311
Warrants liability	11	522,884	765,403
Notes payable		300,549	300,549
		<u>8,857,116</u>	<u>8,701,034</u>
Non-current liabilities			
Lease obligations	10	92,060	131,045
		<u>8,949,176</u>	<u>8,832,079</u>
SHAREHOLDERS' EQUITY			
Class A share capital	12	151,588	151,588
Class B share capital	12	144,760,778	152,173,089
Warrants	12	5,137,417	5,137,417
Contributed surplus	13	24,343,300	22,583,649
Foreign exchange translation reserve		166,027	239,612
Accumulated deficit		<u>(127,798,742)</u>	<u>(126,154,317)</u>
		<u>46,760,368</u>	<u>54,131,038</u>
		55,709,544	62,963,117
Commitments and contingencies	16		
Subsequent events	18		

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

On behalf of the Board:

"Signed"
Director - Donal Carroll

"Signed"
Director - Nitin Kaushal

FSD PHARMA INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[unaudited] [expressed in United States dollar, except number of shares]

For the period ended March 31,	Notes	2022 \$	2021 \$
Expenses			
General and administrative	15	3,528,302	3,048,859
External research and development fees		937,052	1,970,251
Share-based payments	13	83,161	3,832,524
Depreciation and amortization	7 & 8	1,101,155	951,020
Total operating expenses		5,649,670	9,802,654
Loss from continuing operations		(5,649,670)	(9,802,654)
Other income		—	(1,292)
Finance expense		16,382	19,325
Gain on settlement of financial liability		(82,725)	(10,250)
Loss (gain) on change in fair value of derivative liability	11	(242,519)	556,556
Loss (gain) on changes in fair value of investments	6	120,023	(961,381)
Net loss from continuing operations		(5,460,831)	(9,405,612)
Net loss from discontinued operations	3	(444,506)	(533,842)
Net loss		(5,905,337)	(9,939,454)
Other comprehensive loss			
Items that may be subsequently reclassified to loss:			
Exchange loss on translation of foreign operations		(73,585)	(37,370)
Comprehensive loss		(5,978,922)	(9,976,824)
Net loss per share			
Basic and diluted - continuing operations	14	(0.14)	(0.35)
Basic and diluted - discontinued operations	14	(0.01)	(0.02)
Weighted average number of shares outstanding – basic and diluted	14	39,998,791	26,898,886

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

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

For the periods ended March 31, 2022 and 2021

[unaudited] [expressed in United States dollar, except number of shares]

	Class A shares		Class B shares		Warrants		Contributed surplus	Foreign exchange translation reserve	Accumulated deficit	Total
	#	\$	#	\$	#	\$				
Balance, December 31, 2020	72	151,588	19,161,620	103,056,538	6,749,109	4,968,958	18,792,590	207,797	(90,868,888)	36,308,583
Shares issued [note 12]	—	—	15,480,462	38,341,407	—	—	—	—	—	38,341,407
Share-based payments [note 13]	—	—	1,349,764	3,576,875	—	—	255,650	—	—	3,832,525
Comprehensive loss for the period	—	—	—	—	—	—	—	(37,370)	(9,939,454)	(9,976,824)
Balance, March 31, 2021	72	151,588	35,991,846	144,974,820	6,749,109	4,968,958	19,048,240	170,427	(100,808,342)	68,505,691
Balance, December 31, 2021	72	151,588	40,450,754	152,173,089	6,956,795	5,137,417	22,583,649	239,612	(126,154,317)	54,131,038
Share repurchase [note 12]	—	—	(1,524,700)	(5,735,821)	—	—	—	—	4,260,912	(1,474,909)
Share-based payments [note 13]	—	—	70,179	75,600	—	—	7,561	—	—	83,161
Share cancellation [note 12]	—	—	(504,888)	(1,752,090)	—	—	1,752,090	—	—	—
Comprehensive loss for the period	—	—	—	—	—	—	—	(73,585)	(5,905,337)	(5,978,922)
Balance, March 31, 2022	72	151,588	38,491,345	144,760,778	6,956,795	5,137,417	24,343,300	166,027	(127,798,742)	46,760,368

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

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2022 and 2021

[unaudited] [expressed in United States dollar]

	2022	2021
	\$	\$
Operating activities		
Net loss from continuing operations	(5,460,831)	(9,405,612)
Add (deduct) items not affecting cash		
Depreciation and amortization	1,101,155	951,020
Interest expense	19,615	19,325
Share-based payments	83,161	3,832,524
Change in fair value of other investments	120,023	(961,381)
Change in fair value of derivative liability	(242,519)	556,556
Unrealized foreign exchange gain	(200,056)	(144,819)
Gain on settlement of financial liability	(82,725)	(10,250)
Changes in non-cash working capital balances		
Other receivables	(170,611)	(52,894)
Prepaid expenses and deposits	(195,016)	(1,416,697)
Trade and other payables	438,640	1,819,679
Cash used in continuing operating activities	(4,589,164)	(4,812,549)
Cash used in discontinued operating activities	(504,264)	(672,013)
Cash used in operating activities	(5,093,428)	(5,484,562)
Investing activities		
Purchase of equipment	(14,622)	—
Additions to intangible assets	(250,000)	(500,000)
Proceeds from sale of investments	158,036	—
Cash provided by continuing investing activities	(106,586)	(500,000)
Cash provided by (used in) discontinued investing activities	—	—
Cash provided by (used in) investing activities	(106,586)	(500,000)
Financing activities		
Share repurchase	(1,474,909)	—
Proceeds from issuance of shares, net	—	38,341,407
Repayment of notes payable	—	(28,260)
Payment of lease obligation	(11,838)	(14,676)
Cash provided by continuing financing activities	(1,486,747)	38,298,471
Cash provided by discontinued financing activities	—	—
Cash provided by financing activities	(1,486,747)	38,298,471
Net increase (decrease)	(6,686,761)	32,313,909
Cash, beginning of the period	35,259,645	17,524,822
Cash, end of the period	28,572,884	49,838,731

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

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Notes to the condensed consolidated interim financial statements

(expressed in United States dollars)

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1. Nature of business

FSD Pharma Inc. ("FSD" or the "Company") is a biotechnology company with three drug candidates in different stages of development. FSD Biosciences Inc., a wholly-owned subsidiary, is focused on pharmaceutical research and development ("R&D") of its lead compound, ultra-micronized palmitoylethanolamide ("PEA") or FSD-PEA (also known as FSD-201). Through the Company's wholly owned subsidiary, Lucid Psycheceuticals Inc. ("Lucid"), the Company is also focused on the research and development of its lead compounds, Lucid-PSYCH (also known as Lucid-201) and Lucid-MS (also known as Lucid-21-302). PEA, the active substance in FSD-PEA, interacts with the endocannabinoid system in the body and exhibits anti-inflammatory activities. FSD-PEA has completed FDA-approved Phase 1 clinical trials with positive topline results and the Company is currently evaluating potential Phase 2 indications. Lucid PSYCH is a molecular compound identified for the potential treatment of mental health disorders. Lucid-MS is a molecular compound identified for the potential treatment of neurodegenerative disorders.

FV Pharma Inc. ("FV Pharma"), a wholly owned subsidiary of the Company, was a licensed producer of cannabis in Canada under the Cannabis Act (Canada) (together with the regulations promulgated thereunder (the "Cannabis Regulations"), the "Cannabis Act") and associated Cannabis Regulations. FV Pharma surrendered its cannabis license in July 2020 and suspended all activities in September 2020. In March 2020, substantially all the assets of FV Pharma were classified as held for sale (refer to Note 3).

The Company's registered office is located at 199 Bay Street, Suite 4000, Toronto, Ontario, M5L 1A9.

Subsidiaries

These unaudited condensed consolidated interim financial statements are comprised of the financial results of the Company and its subsidiaries, which are the entities over which the Company has control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee.

The Company has the following subsidiaries:

Entity Name	Country	Ownership percentage as at	
		March 31, 2022	December 31, 2021
		%	%
FSD Biosciences Inc.	USA	100	100
Prismic Pharmaceuticals Inc.	USA	100	100
FV Pharma Inc.	Canada	100	100
Lucid Psycheceuticals Inc.	Canada	100	100

Impact of COVID-19

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19," has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company's business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government

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and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

The Company's clinical trials for the use of FSD-PEA, a compound to treat suspected or confirmed cases of COVID-19, were placed on hold in June of 2021 pending the completion of a study to assess the commercial viability of FSD-PEA as a treatment for COVID-19. Following the completion of the study, the Company announced on August 24, 2021, that it was terminating the Phase 2 clinical program specific to treating COVID-19. The impact of COVID-19 did not have a material impact on the continuing operations or financial results of the Company for the period ended March 31, 2022.

2. Basis of presentation

[a] Statement of compliance

These unaudited condensed consolidated interim financial statements ("financial statements") were prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended December 31, 2021. These financial statements have been prepared in compliance with IAS 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. These financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 13, 2022.

[d] Functional currency and presentation currency

The financial statements of each company within the consolidated group are measured using their functional currency, which is the currency of the primary economic environment in which an entity operates. The Company's functional currency is the United States dollar and the functional currencies of its subsidiaries are as follows:

FSD Biosciences Inc.	United States Dollar
Prismic Pharmaceuticals Inc.	United States Dollar
FV Pharma Inc.	Canadian Dollar
Lucid Psycheceuticals Inc.	Canadian Dollar

[e] Use of estimates and judgments

The preparation of these financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, consistent with those disclosed in the audited consolidated financial statements for the year ended December 31, 2021 and described in these financial statements. Actual results could differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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New standards, amendments and interpretations not yet adopted by the Company

IAS 1, Presentation of financial statements ("IAS 1")

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the consolidated statements of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. In July 2020, the effective date was deferred to January 1, 2023. The Company is still assessing the impact of adopting these amendments on its financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarifies how to distinguish changes in accounting policies from changes in accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is still assessing the impact of adopting these amendments on its financial statements.

IAS 12, Income Taxes ("IAS 12")

In May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a single transaction (Amendments to IAS 12). The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal taxable and deductible temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

All other IFRSs and amendments issued but not yet effective have been assessed by the Company and are not expected to have a material impact on the Consolidated Financial Statements.

3. Assets held for sale

In March 2020, the Company decided to focus its efforts and resources on the pharmaceutical business and initiated the process to exit the medical cannabis industry and sell FV Pharma's facility located at 520 William Street, Cobourg, Ontario, K9A 3A5 (the "Facility") and the 64-acre property on which the Facility is located (the "Facility Property"). On February 23, 2022, the Company entered into a firm agreement in connection with the sale of the Facility and the Facility Property. In consideration for the purchase of the Facility and the Facility Property, the purchaser has agreed to pay a cash sum of C\$16,500,000, including a deposit of C\$660,000. The deposit was received by the Company on February 24, 2022, and the sale is expected to close in mid 2022.

Results of operations related to the Disposal Group are reported as discontinued operations for the period ended March 31, 2022 and 2021.

In accordance with *IFRS 5, Non-current Assets Held for Sale and Discontinued Operations*, the assets held for sale were assessed for impairment based on fair value less costs to sell. The fair value was measured using the price at

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which the Company expects to receive for the disposal group less estimates for the costs of disposal. The fair value less costs to sell was higher than the carrying value of the Disposal Group resulting in recognition of the resulting group at its carrying value.

Assets held for sale as at March 31, 2022 and December 31, 2021 consisted of the following:

	2022	2021
	\$	\$
Property and plant	8,773,856	8,647,779

Net loss and comprehensive loss from discontinued operations for the three months ended March 31, 2022 and 2021 is comprised of the following:

		For the three months ended March 31,	
	Notes	2022	2021
		\$	\$
Expenses			
General and administrative	15	459,674	548,455
Total operating expenses		459,674	548,455
Loss from discontinued operations		(459,674)	(548,455)
Other income		(15,168)	(14,613)
Net loss from discontinued operations		(444,506)	(533,842)

Cash flows from discontinued operations for the three months ended March 31, 2022 and 2021 are comprised of the following:

	For the three months ended March 31,	
	2022	2021
	\$	\$
Operating activities		
Net loss from discontinued operations	(444,506)	(533,842)
Add (deduct) items not affecting cash		
Changes in non-cash working capital balances		
Trade and other receivables	(37,140)	(22,840)
Prepaid expenses and deposits	(17,424)	(53,021)
Trade and other payables	(5,194)	(62,310)
Cash used in operating activities	(504,264)	(672,013)

4. Other receivables

The Company's other receivables are comprised of the following:

	March 31, 2022	December 31, 2021
	\$	\$
Sales tax receivable	474,992	272,212
ITC receivable	232,087	228,752
	707,079	500,964

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5. Prepaid expenses and deposits

The Company's prepaid expenses and deposits include the following:

	March 31, 2022	December 31, 2021
	\$	\$
Research and development	593,370	602,497
Insurance	579,988	116,649
Other prepaids and deposits	405,503	647,275
	1,578,861	1,366,421

6. Investments

The following tables outline changes in investments during the periods:

Entity	Instrument	Note	Balance at December 31, 2021	Proceeds from sale	Change in fair value through profit or loss	Balance at March 31, 2022
			\$		\$	\$
True Pharma Strip Inc.	Shares	(i)	197	197	—	—
HUGE Shops	Shares	(ii)	157,760	157,760	—	—
SciCann Therapeutics	Shares	(iii)	79	79	—	—
Solarvest BioEnergy Inc.	Shares	(iv)	366,792	—	(66,679)	300,113
Solarvest BioEnergy Inc.	Convertible debenture	(iv)	293,434	—	(53,344)	240,090
			818,262	158,036	(120,023)	540,203

(i) True Pharma Strip Inc. ("True Pharma")

On September 6, 2018, the Company subscribed for \$1,128,450 of equity units in a brokered private placement. The equity investment is measured at fair value through profit or loss. True Pharma is not a publicly traded company; therefore, the fair value was classified as level 3 within the fair value hierarchy – significant unobservable inputs that are supported by little or no market activity. On December 31, 2021, the Company entered into an agreement to sell the investment. Subsequent to December 31, 2021, the Company completed the sale for gross proceeds of C\$250 (\$197).

(ii) HUGE Shops

The Company's investment in HUGE Shops includes 17,333,333 shares based on the December 2018 subscription price of C\$0.075 per share. The equity investment is measured at fair value through profit or loss. Huge Shops is not a publicly traded company; therefore, the fair value was classified as level 3 within the fair value hierarchy. On December 31, 2021, the Company entered into an agreement to sell the investment. Subsequent to December 31, 2021, the Company completed the sale for gross proceeds of C\$200,000 (\$157,760).

(iii) SciCann Therapeutics Inc. ("SciCann")

The investment includes 117,648 shares based on the subscription price in May of 2018 and October of 2018 of C\$17 per share. The equity investment is measured at fair value through profit or loss. SciCann is not a publicly traded company therefore, the fair value was classified as level 3 within the fair value hierarchy. On December 31, 2021, the Company entered into an agreement to sell the investment. Subsequent to December 31, 2021, the Company completed the sale for gross proceeds of C\$100 (\$79).

(iv) Solarvest BioEnergy Inc. ("Solarvest")

On May 7, 2019, the Company acquired 3,000,000 common shares, 3,000,000 warrants and a convertible debenture at a principal amount of \$1,805,520 for a total fair value of \$2,256,900 of Solarvest in exchange for 49,751 Class B shares of the Company with a fair value of \$1,880,750 based on a market price of C\$50.25 and recognition of a derivative liability of \$376,150. Under the terms of the agreement, the Company has guaranteed a minimum liquidation value of its shares to Solarvest of \$2,256,900 resulting in recognition of the derivative liability. If the liquidation value of

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the Company's shares is below \$2,256,900, the Company would be required to issue additional shares for the difference in actual value realized and the minimum guaranteed value.

As at December 31, 2021, the fair value of the shares was determined based on the quoted market price of the shares of C\$0.155 per share. The warrants expired unexercised during the year ended December 31, 2021. The fair value of the convertible debenture is calculated as the fair value of the shares if the debenture were converted at the SVS share price of C\$0.155 as at December 31, 2021.

As at March 31, 2022, the fair value of the shares was determined based on the quoted market price of the shares of C\$0.125 per share. The fair value of the convertible debenture is calculated as the fair value of the shares if the debenture were converted at the SVS share price of C\$0.125 as at March 31, 2022. The shares have been classified as level 1 within the fair value hierarchy – quoted market price, and the convertible debenture has been classified as level 2 – valuation technique with observable market inputs.

7. Right-of-use asset

Right-of-use assets as at March 31, 2022 are as follows:

	\$
Balance – December 31, 2020	—
Additions	179,755
Amortization	(8,300)
Effects of foreign exchange	(3,148)
Balance – December 31, 2021	168,307
Amortization	(24,309)
Effects of foreign exchange	3,148
Balance – March 31, 2022	147,146

8. Intangible assets

Intangible assets as at March 31, 2022 are as follows:

	\$
As at December 31, 2020	19,201,493
Additions	500,000
Acquisition of Lucid	6,314,571
As at December 31, 2021	26,016,064
Additions	250,000
As at March 31, 2022	26,266,064

Accumulated amortization

As at December 31, 2020	5,777,102
Amortization	4,037,223
As at December 31, 2021	9,814,325
Amortization	1,075,284
As at March 31, 2022	10,889,609

Net book value

As at December 31, 2021	16,201,739
As at March 31, 2022	15,376,455

On March 9, 2021, the Company entered into a license agreement ("Innovet License Agreement") with Innovet Italia S.R.L. ("Innovet"), under which Innovet granted the Company a license to use ultra-micro PEA to develop FDA

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approved veterinary drugs for the treatment of gastro-intestinal diseases in canines and felines. Under the Innovet license agreement, the Company is required to make payments to Innovet upon the achievement of certain milestones (Note 16), including \$500,000 which was paid upon execution of the Innovet License Agreement as consideration in exchange for the rights to the Licensed Products. The Company made a payment of \$250,000 during the three months ended March 31, 2022 as part of the consideration payable for the rights to use the intellectual property. The life of the intellectual property has been determined to be 5 years. Amortization of the intellectual property commenced on the date of the agreement.

9. Trade and other payables

Trade and other payables consist of the following:

	March 31, 2022	December 31, 2021
	\$	\$
Trade payables	2,788,887	2,995,726
Accrued liabilities (i)	5,069,549	4,455,346
Other payables	15,352	59,699
	7,873,788	7,510,771

(i) Accrued liabilities consist of the following:

	March 31, 2022	December 31, 2021
	\$	\$
External research and development fees	2,900,877	3,062,844
Operational expenses	84,845	412,008
Professional fees	1,704,744	570,193
Accrued interest	379,083	364,275
Severance	—	46,026
	5,069,549	4,455,346

10. Lease obligations

The lease obligations as at December 31, 2021 and March 31, 2022, are as follows:

	\$
Balance – December 31, 2020	125,962
Additions	179,755
Add: Interest Expense	9,349
Less: Lease Payments	(57,566)
Effects of foreign exchange	(2,144)
Balance – December 31, 2021	255,356
Add: Interest Expense	4,807
Less: Lease Payments	(11,838)
Effects of foreign exchange	3,630
Balance – March 31, 2022	251,955
Current	159,895
Non-current	92,060
Balance – March 31, 2022	251,955

Lease obligations are related to the Company's office leases.

The following table sets out a maturity analysis of the lease payments payable, showing the undiscounted lease payments to be paid on an annual basis, reconciled to the lease obligation.

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	\$
Less than one year	169,274
One to two years	97,922
Thereafter	—
Total undiscounted lease payments payable	267,196
Less: impact of present value	(15,241)
Balance – March 31, 2022	251,955

11. Warrants Liability

In August 2020, the Company issued 2,762,430 Class B shares and 1,381,215 warrants to purchase Class B shares for total cash proceeds of \$9,999,997. Each warrant is exercisable to purchase one Class B share of the Company at an exercise price of \$4.26 per share and expire five years from the date of issuance. The fair value of these warrants is classified as Level 2 in the fair value hierarchy.

The fair value of the warrants liability as at December 31, 2021, was \$765,403. The fair value was determined using the Black-Scholes option pricing model and the following assumptions: exercise price of \$4.26, the underlying share price of \$1.02, risk-free interest rate of 1.22% and annualized volatility of 120%.

The fair value of the warrants liability as at March 31, 2022, was \$522,884 resulting in a gain on change in fair value of \$242,519 for the period ended March 31, 2022. The fair value was determined using the Black-Scholes option pricing model and the following assumptions: exercise price of \$4.26, the underlying share price of \$0.87, risk-free interest rate of 2.37% and annualized volatility of 112%.

12. Share capital

[a] Authorized

The Company is authorized to issue an unlimited number of Class A multiple voting shares ("Class A shares") and an unlimited number of Class B subordinate voting shares ("Class B shares"), all without par value. All shares are ranked equally with regards to the Company's residual assets.

The holders of Class A shares are entitled to 276,660 votes per Class A share held. Class A shares are held by certain Directors and the former CEO of the Company. The holders of Class B shares are entitled to one (1) vote per share held.

[b] Issued and outstanding

Reconciliation of the Company's share capital is as follows:

	Class A shares		Class B shares		Warrants	
	#	\$	#	\$	#	\$
Balance, December 31, 2020	72	151,588	19,161,620	103,056,538	6,749,109	4,968,958
Shares issued [a]	—	—	15,480,462	38,341,407	—	—
Share-based payments [b]	—	—	1,349,764	3,576,875	—	—
Balance, March 31, 2021	72	151,588	35,991,846	144,974,820	6,749,109	4,968,958
Balance, December 31, 2021	72	151,588	40,450,754	152,173,089	6,956,795	5,137,417
Shares-based payments [c]	—	—	70,179	75,600	—	—
Share repurchase [d]	—	—	(1,524,700)	(5,735,821)	—	—
Share cancellation [e]	—	—	(504,888)	(1,752,090)	—	—
Balance, March 31, 2022	72	151,588	38,491,345	144,760,778	6,956,795	5,137,417

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- [a] During the three months ended March 31, 2021, the Company issued 15,480,462 Class B shares through the Equity Distribution Agreements with A.G.P/Alliance Global Partners for gross proceeds of \$39,765,474. The Company incurred transaction fees of \$1,424,067.
- [b] On February 17, 2021, the Company issued 1,349,764 Class B shares to certain officers and members of the Board of Directors as share-based compensation with a fair value of \$3,576,875 based on a share-price of \$2.65 on the day of issuance.
- [c] During the three months ended March 31, 2022, the Company issued 70,179 Class B shares for services received during the period with a fair value of \$75,600.
- [d] During the three months ended March 31, 2022, the Company repurchased and cancelled 1,524,700 Class B Common Shares at prevailing market prices as part of its share repurchase program.
- [e] On March 29, 2022, the Company cancelled 504,888 Class B shares previously held by the former CEO following a court decision with respect to the shares issued in February 2021.

The changes in the number of warrants outstanding during the three months ended March 31, 2022 and 2021 were as follows:

	Number of warrants #	Weighted average C\$
Outstanding as at December 31, 2020	6,749,109	5.62
Outstanding as at March 31, 2021	6,749,109	5.58
Outstanding as at December 31, 2021	6,956,795	5.50
Outstanding as at March 31, 2022	6,956,795	5.46

Measurement of fair values

There were no warrants granted during the three months ended March 31, 2022 and 2021.

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The following table is a summary of the Company's warrants outstanding as at March 31, 2022

Warrants Outstanding		
Expiry Date	Exercise price C\$	Number outstanding #
May 24, 2022	18.09	163,535
September 15, 2022	4.42	199,005
November 30, 2022	1.21	46,242
December 31, 2022	2.43	65,920
May 20, 2023	16.08	7,311
June 23, 2023	2.50	100,000
July 24, 2023	13.07	3,357
September 11, 2023	5.43	22,382
May 4, 2025	26.73	3,730
May 10, 2025	26.73	1,865
May 17, 2025	26.73	3,730
May 31, 2025	26.73	1,865
June 8, 2025	9.65	1,500,000
August 6, 2025 (i)	5.32	1,381,215
October 20, 2025 (ii)	3.25	3,454,543
January 16, 2026	26.73	1,722
January 20, 2026	26.73	373
	5.46	6,956,795
(i)	Warrants were issued in US\$ with exercise price of \$4.26	
(ii)	Warrants were issued in US\$ with exercise price of \$2.60	

The following table is a summary of the Company's warrants outstanding as at March 31, 2021:

Warrants Outstanding		
Expiry Date	Exercise price C\$	Number outstanding #
May 24, 2022	18.09	163,535
September 15, 2022	4.42	199,005
November 30, 2022	1.21	46,242
December 31, 2022	2.43	65,920
May 20, 2023	16.08	7,311
June 23, 2023	2.50	100,000
July 24, 2023	13.07	3,357
September 11, 2023	5.43	22,382
May 4, 2025	26.73	3,730
May 10, 2025	26.73	1,865
May 17, 2025	26.73	3,730
May 31, 2025	26.73	1,865
June 8, 2025	9.65	1,500,000
August 6, 2025 (i)	5.40	1,381,215
October 20, 2025 (ii)	3.30	3,454,543
January 16, 2026	26.73	1,722
January 20, 2026	26.73	373
	5.50	6,956,795
(i)	Warrants were issued in US\$ with exercise price of \$4.26	
(ii)	Warrants were issued in US\$ with exercise price of \$2.60	

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13. Share-based compensation

The Company has established a share option plan (the "Option Plan") for directors, officers, employees and consultants of the Company. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan, the term and vesting periods, and the exercise price of options granted to individuals under the Option Plan.

Each share option converts into one common share of the Company on exercise. No amounts are paid or payable by the individual on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

Share-based payment arrangements

The changes in the number of share options during the three months ended March 31, 2022 and 2021 were as follows:

	Number of options #	Weighted average exercise price C\$
Outstanding as at December 31, 2020	1,693,063	6.11
Granted	120,000	3.27
Cancelled	(141,295)	13.56
Outstanding as at March 31, 2021	1,671,768	5.28
Exercisable as at March 31, 2021	1,507,766	5.27

	Number of options #	Weighted average exercise price C\$
Outstanding as at December 31, 2021	3,224,859	2.75
Expired	(12,438)	3.86
Outstanding as at March 31, 2022	3,212,421	2.75
Exercisable as at March 31, 2022	3,185,413	2.71

During the three months ended March 31, 2022, 12,438 share options related to former officers and employees who are no longer with the Company expired. Individuals who are no longer with the Company have 30 days after their last day to exercise any vested share options. Vested options that remain unexercised after 30 days expire.

Measurement of fair values

There were no share options granted during the three months ended March 31, 2022. The fair value of share options granted during the three months ended March 31, 2021 were estimated at the date of grant using the Black-Scholes option pricing model with the following inputs:

	2021
Grant date share price	C\$1.96 — C\$2.85
Exercise price	C\$1.70 — C\$4.25
Expected dividend yield	—
Risk free interest rate	0.34% — 1.10%
Expected life	2 — 6 years
Expected volatility	116% — 132%

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Expected volatility was estimated by using the annualized historical volatility of the Company. The expected option life represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on Canadian government bonds with a remaining term equal to the expected life of the options.

The following table is a summary of the Company's share options outstanding as at March 31, 2022:

Options outstanding			Options exercisable		
Exercise price C\$	Number outstanding #	Weighted average remaining contractual life [years] #	Exercise price C\$	Number exercisable #	
1.70	154,953	3.21	1.70	154,953	
2.91	5,150	3.75	2.91	5,150	
2.25	2,559,995	2.18	2.25	2,559,995	
2.61	12,684	1.24	2.61	12,683	
3.75	10,500	3.67	3.75	6,500	
3.86	243,807	3.02	3.86	240,805	
4.42	99,503	0.46	4.42	99,502	
4.75	15,000	3.04	4.75	15,000	
5.43	16,265	1.24	5.43	16,264	
7.63	50,000	3.76	7.63	30,000	
10.65	3,731	1.24	10.65	3,730	
13.07	10,856	1.24	13.07	10,855	
13.47	1,418	1.24	13.47	1,418	
16.08	18,410	1.24	16.08	18,409	
17.89	4,178	1.24	17.89	4,178	
18.09	2,488	0.99	18.09	2,488	
50.25	3,483	2.04	50.25	3,483	
2.75	3,212,421	2.25	2.71	3,185,413	

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The following table is a summary of the Company's share options outstanding as at March 31, 2021:

Options outstanding			Options exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life [years]	Exercise price	Number exercisable	
C\$	#	#	C\$	#	
2.61	12,683	2.24	2.61	12,683	
2.82	75,000	4.81	2.82	75,000	
3.75	25,500	4.47	3.75	8,000	
3.86	841,046	3.87	3.86	837,044	
4.25	25,000	4.97	4.25	—	
4.42	99,502	1.46	4.42	99,502	
4.75	110,000	4.04	4.75	77,500	
5.03	60,000	4.46	5.03	15,000	
5.43	16,264	2.24	5.43	16,264	
6.16	20,000	2.93	6.16	20,000	
7.17	199,005	3.58	7.17	199,005	
7.63	103,750	4.45	7.63	63,750	
9.54	15,000	3.81	9.54	15,000	
10.65	3,730	2.24	10.65	3,730	
13.07	10,855	2.24	13.07	10,855	
13.47	1,418	2.24	13.47	1,418	
16.08	18,409	2.24	16.08	18,409	
17.89	4,178	2.24	17.89	4,178	
18.09	17,413	1.97	18.09	17,413	
20.10	8,289	2.02	20.10	8,289	
50.25	4,726	3.07	50.25	4,726	
5.28	1,671,768	3.72	5.27	1,507,766	

The Company recognized share-based compensation for the three months ended March 31, 2022 and 2021 as follows:

	For the three months ended March 31,	
	2022	2021
	\$	\$
Share options	7,561	255,649
Class B Common Shares issued for services	75,600	—
Class B Common Shares issued for compensation	—	3,576,875
	83,161	3,832,524

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14. Loss per share

Net loss per common share represents net loss attributable to common shareholders divided by the weighted average number of common shares outstanding during the year.

For all the periods presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of warrants and share options. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but would have decreased the loss per share (anti-dilutive) for the three months ended March 31, 2022 and 2021 presented are as follows:

	March 31, 2022	March 31, 2021
	#	#
Warrants	6,956,795	6,749,109
Share Options	3,212,421	1,671,768
	10,169,216	8,420,877

15. General and administrative

Components of general and administrative expenses for the three months ended March 31, 2022 and 2021 were as follows:

	For the three months ended March 31,	
	2022	2021
	\$	\$
Professional fees	2,132,377	1,051,476
General office, insurance and administration expenditures	471,523	847,282
Consulting fees	351,689	729,840
Salaries, wages and benefits	578,350	694,736
Investor relations	291,170	38,801
Building and facility costs	412,360	390,363
Foreign exchange loss	(249,493)	(155,184)
	3,987,976	3,597,314
Allocated to:		
Continuing operations	3,528,302	3,048,859
Discontinued operations	459,674	548,455

16. Commitments and contingencies

Commitments

Epitech License Agreement

Under the terms of the Company's License Agreement with Epitech Group SPA ("Epitech"), the Company has payments due to Epitech pending the achievement of specified milestones. Upon first notification by the U.S. Food and Drug Administration ("FDA") of approval of a New Drug Application, the non-refundable sum of \$700,000 will be due and payable to Epitech. Within thirty days of the first notification by the FDA of approval of a New Drug Application, the Company is required to pay the non-refundable sum of \$500,000 to Epitech. Within ten business days of the first notification of approval of a Supplemental New Drug Application by the FDA, the Company will pay the non-refundable sum of \$1,000,000 to Epitech.

For non-prescription drug rights, any one-off lump sum payments received by the Company as consideration for granting a sub-license to a Commercial Partner with respect to a Licensed Product, shall require the Company to pay to Epitech 25% of the lump sum payment received by the Company. For prescription drug rights the Company shall

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pay 5% of any one-off lump sum payments to Epitech as consideration for granting a sub-license to a Commercial Partner with respect to a Licensed Product. The Company will pay the amounts payable on a quarterly basis within 60 days of the end of each calendar quarter.

The Company shall pay either a) 7% of Net Sales of the Licensed Product in a Product Regulatory Category other than prescription drugs placed on the market by the Company; or b) 25% of Net Receipts received by the Company from Commercial Partners where Licensed Products in a Product Regulatory Category other than prescription drugs are placed on the market by such Commercial Partners; or c) 5% of Net Sales or Net receipts of the Licensed Products in the Product Regulatory Category of prescription drugs. The Company will pay the amounts payable on a quarterly basis within 60 days of the end of each calendar quarter.

Innovet License Agreement

Under the terms of the Innovet license agreement, the Company has payments due to Innovet pending the achievement of specified milestones. Within thirty days from the first notification by the FDA of approval of a New Animal Drug Application ("NADA"), the Company will pay the non-refundable sum of \$750,000 to Innovet.

Any one-off lump sum payments received by the Company as consideration for granting a sub-license to a Commercial Partner with respect to a Licensed Product, shall require the Company to pay to Innovet 14% of the lump sum payment received by the Company. The Company will pay the amounts payable on a quarterly basis within 60 days of the end of each calendar quarter.

The Company shall pay 5% of Net Sales of the Licensed Product. The Company will pay the amounts payable on a quarterly basis within 60 days of the end of each calendar quarter.

Lucid-MS Agreement

The Company has entered into a license agreement that governs the Lucid-MS compound. Under the terms of the agreement, the Company shall pay a yearly license maintenance fee of C\$100,000 until the first commercial sale of a product is made.

Under the agreement the Company is committed to minimum milestones payments of \$nil and maximum milestones payments of C\$12,500,000 if all product development and regulatory milestones are met.

Furthermore, the Company is also responsible to pay revenue milestone payments and royalties if revenue milestones from commercial sales are achieved. Milestones can be extended by mutual agreement.

Contingencies

Legal Matters

From time to time, the Company is named as a party to claims or involved in proceedings, including legal, regulatory and tax related, in the ordinary course of its business. While the outcome of these matters may not be estimable at the reporting date, the Company makes provisions, where possible, for the estimated outcome of such claims or

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proceedings. Should a loss result from the resolution of any claims or proceedings that differs from these estimates, the difference will be accounted for as a charge to profit or loss in that period.

Environmental

Management believes that there are no probable environmental related liabilities that will have a material adverse effect on the financial position or operating results of the Company.

Contract Research Organization ("CRO") Dispute

The Company is involved in arbitration proceedings with a CRO regarding amounts claimed to be owed to the CRO by the Company. The CRO is claiming it is owed amounts outstanding for work on clinical trials in the United States. The Company is disputing the amounts claimed to be owed. The Company believes it has sufficiently provided for amounts claimed to be owed to the CRO which are recorded in trade and other payables. As at March 31, 2022, the ultimate outcome of the matter cannot be reliably determined at this time.

Parkway Clinical Laboratories

Parkway Clinical Laboratories ("PCL"), a company wholly owned by the Company's former CEO, Raza Bokhari, has filed an action in Pennsylvania on July 8, 2021, against the Company. PCL has advanced two claims: (1) breach of contract in which PCL alleges that the Company failed to pay for \$1,412,951 worth of services rendered (e.g., providing office space, personnel, and financial assistance); and (2) alleging that the Company received the benefit of the same services referenced in the breach of contract claim without paying for them. Given that no summary judgment motions have yet been filed, it is difficult to assess whether such motions would be successful. Trial is scheduled to begin on July 11, 2022.

The Company denies that the money sought by PCL is owed and intends to vigorously defend the claim. As the ultimate outcome of the matter cannot be reliably determined at this time no provision has been recorded for this matter as at March 31, 2022.

Raza Bokhari

On July 15, 2021, the Company's former CEO, Raza Bokhari, filed a notice of arbitration and is seeking relief and support for breach of contract and severance and damages in the amount of \$30,200,000, for aggravated and punitive damages in the amount of \$500,000 and legal fees and disbursements associated with the arbitration. Raza Bokhari was placed on administrative leave from his role as the Company's Chief Executive Officer following the Company's annual general and special meeting of shareholders on May 14, 2021, pending the outcome of an investigation of various concerns by a Special Committee comprised of independent directors using independent legal counsel. Upon the recommendation of the Special Committee, Raza Bokhari's employment was terminated for cause by the Company's board of directors on July 27, 2021. The arbitration hearing commenced in March 2022 and has proceeded through the production and oral examination stages.

The Company disputes the allegations and intends to vigorously defend against the claim. It has counterclaimed against Raza Bokhari for losses sustained as a result of Raza Bokhari's alleged breaches of his duties to the Corporation. As the ultimate outcome of the matter cannot be reliably determined at this time, no provision has been recorded for this matter as at March 31, 2022.

Derivative Complaint

On July 20, 2021, a shareholder filed a claim in Delaware against the Company and its directors and officers seeking to remedy harm they believe the directors and officers of the Company have caused by their actions. The shareholder has filed the claim on count of breach of fiduciary duties and corporate waste against the directors and officers with no dollar amount being claimed. On September 13, 2021, the Company filed a motion to dismiss in its entirety and the

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motion was heard on February 8, 2022. On May 5, 2022, the Company's motion to dismiss was granted and all claims were dismissed without prejudice.

Indemnity Application

Dr. Raza Bokhari has commenced an application in the Superior Court seeking an order appointing an arbitrator to arbitrate his claim to be entitled to indemnification of his legal expenses associated with the litigation he has commenced against the Company or in which he has been named as a party by the Company. The Company denies the validity of the underlying indemnification agreement and is opposing the application. In April 2022, the parties agreed to adjourn the application without setting a new hearing date.

17. Related party transactions

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly.

Transactions with key management and directors comprised the following:

- a) The Company paid expenses of \$nil (2021 – \$262,834) to a company owned by the former CEO for the three months ended March 31, 2022.
- b) In fiscal 2022, the Company pays independent directors' compensation of C\$60,000, with the chair of the audit committee receiving an additional C\$20,000 and the chair of the compensation committee receiving an additional C\$10,000. Director's compensation for the three months ended March 31, 2022, was \$55,260 (2021 – \$541,545), which includes \$nil (2021 – \$466,545) recognized as share-based compensation for shares issued.
- c) In February 2021, as compensation, the Company issued 1,349,764 shares with a fair value of \$3,576,875 to Raza Bokhari, in his capacity as Board Chair and Chief Executive Officer, and to certain other directors. Of the 1,349,764 shares issued, 1,173,709, with a fair value of \$3,110,330, were issued to Raza Bokhari and 176,055 shares, with a fair value of \$466,545, were issued to other directors. In June 2021, 156,278 of the shares issued to directors in February 2021 were cancelled. On March 8, 2022, following litigation with respect to certain of the shares issued to Raza Bokhari in February 2021, the court issued a decision, permitting the part of the share grant to Raza Bokhari until the date of his termination (being 536,979 Class B shares) but cancelling the shares relating to services that were to be provided after the date of termination (being 504,888 Class B shares). The shares were cancelled on March 29, 2022.

Key management personnel compensation during the three months ended March 31, 2022 and 2021 is comprised of:

	2022	2021
	\$	\$
Salaries, benefits, bonuses and consulting fees	321,846	515,876
Share-based payments and bonuses	6,077	3,855,418
Total	327,923	4,371,294

18. Subsequent events

On April 4, 2022, the Company cancelled 2,820,104 share options held by officers of the Company and replaced them with Restricted Share Units ("RSUs"). Each RSU issued is fully vested on the date of grant and expires 36 months from the date of grant.

Subsequent to March 31, 2022, the Company issued 13,393 Class B shares for services.

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On May 6, 2022, the Company closed the sale of the Facility and the Facility Property for total consideration of CAD\$16,400,000.