XPHYTO THERAPEUTICS CORP.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2022 and 2021

NOTICE TO READER

Under National Instrument 51-102, Part 4, paragraph 4.3(3)(a), if an auditor has not performed a review of interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of XPhyto Therapeutics Corp. have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company.

The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

XPHYTO THERAPEUTICS CORP.
Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars)

As at	Note	March 31, 2022	December 31, 2021
Assets		(unaudited)	
Current assets			
Cash		$ 1,849,620	$ 1,351,981
Amounts receivable		323,244	546,322
Inventory		687,635	736,164
Prepaid expenses		116,772	69,393
		2,977,271	**2,703,860**
Non-current assets			
Property and equipment	5	998,187	1,057,737
Intangible assets	6	1,014,699	1,018,680
Right-of-use assets	7	58,871	71,449
Goodwill	6	4,874,892	4,874,892
Total assets		**$ 9,923,920**	**$ 9,726,618**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8, 13	$ 2,256,531	$ 2,320,225
Lease liabilities	7	90,035	152,979
Convertible debt	9	3,045,830	2,976,431
		5,392,396	**5,449,635**
Non-current liabilities			
Lease liabilities	7	679,402	665,060
Convertible debt	9	1,755,011	1,661,279
Deferred tax liability		282,000	282,000
Total liabilities		**8,108,809**	**8,057,974**
Equity			
Shareholders' equity			
Share capital	10	41,087,920	39,346,125
Treasury shares	10	-	(200,000)
Reserves		5,232,466	5,482,819
Equity component of convertible debt	9	363,454	367,476
Accumulated other comprehensive income		102,471	49,604
Accumulated deficit		(44,971,200)	(43,377,380)
Total shareholders' equity		**1,815,111**	**1,668,644**
Total liabilities and shareholders' equity		**$ 9,923,920**	**$ 9,726,618**

Nature and continuance of operations (Note 1)
Commitments (Note 17)
Subsequent event (Note 19)

Approved by the Directors on May 27, 2022

Hugh Rogers (signed) ***Peter Damouni (signed)***

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

XPHYTO THERAPEUTICS CORP.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (Unaudited)
(Expressed in Canadian dollars)

	Three Months Ended March 31, 2022	2021
Revenues (Note 12)	$ 121,426	$ 3,698
Cost of sales	(49,048)	-
Gross profit	72,378	3,698
Operating Expenses		
Depreciation and amortization (Notes 5, 6 and 7)	59,128	210,286
Professional fees (Note 13)	93,107	80,785
Consulting fees (Note 13)	247,953	374,068
Salaries, benefits and other remuneration (Note 13)	241,642	171,973
Share-based compensation (Note 11)	48,539	896,647
Regulatory fees	8,205	9,602
Marketing and advertising	152,504	1,935,000
Office and miscellaneous	103,566	155,859
Travel and related	4,670	7,412
Rent and utilities	16,584	39,967
Research and lab fees (Note 13)	511,152	1,343,036
Foreign exchange loss (gain)	74,406	(16,738)
Total operating expenses	1,561,456	5,207,897
Operating loss	(1,489,078)	(5,204,199)
Other income (expense)		
Finance costs (Notes 7 and 9)	(281,596)	(162,080)
Government subsidy	10,602	-
Total other income (expense)	(270,994)	(162,080)
Loss for the period	(1,760,072)	(5,366,279)
Cumulative translation adjustment	52,867	(29,349)
Comprehensive loss for the period	$ (1,707,205)	$ (5,395,628)
Loss Per Share – Basic and Diluted	$ (0.02)	$ (0.08)
Weighted Average Number of Common Shares Outstanding – Basic and Diluted	77,748,945	65,190,837

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

XPHYTO THERAPEUTICS CORP.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

	Three Months Ended March 31, 2022	2021
Operating Activities		
Loss for the period	$ (1,760,072)	$ (5,366,279)
Adjustments for:		
Depreciation and amortization	59,128	210,286
Share-based compensation	48,539	896,647
Shares issued per consulting agreements	-	16,950
Shares issued per a development agreement	-	147,500
Finance costs	281,596	162,080
Foreign exchange	45,176	(35,569)
Changes in non-cash working capital items		
Amounts receivable	223,078	(102,984)
Inventory	(47,379)	-
Prepaid expenses	48,529	(97,775)
Accounts payable and accrued liabilities	(63,694)	(431,041)
Cash Used in Operating Activities	(1,165,099)	(4,600,185)
Investing Activity		
Acquisition of property and equipment	-	(24,624)
Cash Used in Investing Activity	-	(24,624)
Financing Activities		
Proceeds from issuance of shares	1,250,000	2,850,000
Share issue costs	(100,000)	(228,100)
Proceeds from exercise of warrants	-	3,013,025
Proceeds from exercise of options	357,000	-
Convertible debenture payments	(307)	-
Repayment of lease liabilities	(37,916)	(35,897)
Proceeds on sale of treasury shares	200,000	-
Cash Provided by Financing Activities	1,668,777	5,599,028
Effect of Exchange Rate on Cash	(6,039)	2,391
Change in cash for the period	497,639	976,610
Cash, beginning of period	1,351,981	2,584,943
Cash, end of period	$ 1,849,620	$ 3,561,553

Supplemental disclosure with respect to cash flows (Note 18)

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

XPHYTO THERAPEUTICS CORP.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital $	Treasury Shares $	Reserves $	Equity Component of Convertible Debt $	Accumulated Other Comprehensive Income (Loss) $	Accumulated Deficit $	Total Shareholders' Equity $
Balance, January 1, 2021	62,349,024	24,585,364	-	4,030,006	265,115	51,606	(24,926,438)	4,005,653
Share issuances, financing	1,500,000	2,850,000	-	-	-	-	-	2,850,000
Issue costs	-	(228,100)	-	-	-	-	-	(228,100)
Finders' warrants	-	(91,985)	-	91,985	-	-	-	-
Shares issued per a development, technology purchase and license agreement	50,000	147,500	-	-	-	-	-	147,500
Shares issued per marketing agreement	5,380	16,950	-	-	-	-	-	16,950
Share-based compensation	-	-	-	896,647	-	-	-	896,647
Issuance of shares on exercise of warrants	3,600,425	3,126,971	-	(113,946)	-	-	-	3,013,025
Cumulative translation adjustment	-	-	-	-	-	(29,349)	-	(29,349)
Loss for the period	-	-	-	-	-	-	(5,366,279)	(5,366,279)
Balance, March 31, 2021	67,504,829	30,406,700	-	4,904,692	265,115	22,257	(30,292,717)	5,306,047
Balance, January 1, 2022	77,453,034	39,346,125	(200,000)	5,482,819	367,476	49,604	(43,377,380)	1,668,644
Share issuances, financing	1,250,000	1,250,000	-	-	-	-	-	1,250,000
Issue costs	-	(100,000)	-	-	-	-	-	(100,000)
Finders' warrants	-	(30,772)	-	30,772	-	-	-	-
Issuance of shares on conversion of convertible debt	100,000	102,155	-	-	(4,022)	-	-	98,133
Share-based compensation	-	-	-	48,539	-	-	-	48,539
Issuance of shares on exercise of options	714,000	520,412	-	(163,412)	-	-	-	357,000
Expired options	-	-	-	(166,252)	-	-	166,252	-
Sale of treasury shares	-	-	200,000	-	-	-	-	200,000
Cumulative translation adjustment	-	-	-	-	-	52,867	-	52,867
Loss for the period	-	-	-	-	-	-	(1,760,072)	(1,760,072)
Balance, March 31, 2022	79,517,034	41,087,920	-	5,232,466	363,454	102,471	(44,971,200)	1,815,111

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

1. NATURE AND CONTINUANCE OF OPERATIONS

XPhyto Therapeutics Corp. (the "Company" or "XPhyto") was incorporated under the *Business Corporations Act* (British Columbia) on December 12, 2017. The principal business of the Company is to focus on strategic assets and investments in the field of rapid pathogen screening systems and next generation drug delivery, as well as medical cannabis opportunities focused on emerging European markets. The Company's shares are trading on the Canadian Securities Exchange ("CSE").

The Company's head office is located at 270 – 1820 Fir Street, Vancouver, British Columbia, Canada, V6J 3B1. The Company's registered and records office is 1500 – 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis.

To date, the Company has incurred losses and further losses are anticipated as the Company further develops its business. The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing. There can be no assurance that the Company will be successful in its efforts to raise additional financing or if financing is available or that it will be on terms that are acceptable to the Company. The Company has working capital deficit of $2,415,125 as at March 31, 2022 and incurred a loss of $1,760,072 for the period then ended. The Company anticipates it will need further funding to maintain its operations and activities for the next 12 months. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. These condensed consolidated interim financial statements do not include any adjustments related to the recoverability of assets and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread worldwide, and any related adverse public health developments, have adversely affected workforces, customers, economies and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses, including the Company's. This outbreak could decrease spending, adversely affect and harm our business and results of operations. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

2. BASIS OF PRESENTATION

a) Statement of compliance to International Financial Reporting Standards

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and IFRS, as issued by the International Accounting Standards Board. These condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements as at December 31, 2021 and for the year then ended, as some disclosures from the annual consolidated financial statements have been condensed or omitted.

These condensed consolidated interim financial statements were authorized by the Company's Directors on May 27, 2022.

2. BASIS OF PRESENTATION (cont'd)

b) Basis of consolidation

The following entities have been consolidated within these condensed consolidated interim financial statements:

Entity	Registered	Holding
XPhyto Therapeutics Corp.	British Columbia, Canada	Parent company
XPhyto Laboratories Inc.	Alberta, Canada	100% owned
Bunker Pflanzenextrakte GmbH ("Bunker")	Germany	100% owned
XP Diagnostics GmbH	Germany	100% owned
Vektor Pharma TF GmbH ("Vektor")	Germany	100% owned
SCUR-Alpha 1108 GmbH	Germany	100% owned
3a-diagnostics GmbH ("3a GmbH")	Germany	100% owned
Vektor Vermogens und Grundbesitz GmbH	Germany	100% owned

The subsidiaries are controlled by the Company. Control exists when the Company is exposed, or has rights, to the variable returns from its involvement with the investee and can affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the condensed consolidated interim financial statements.

c) Basis of measurement

These condensed consolidated interim financial statements of the Company have been prepared on an accrual basis and are based on historical costs, except for financial instruments measured at fair value. The condensed consolidated interim financial statements are presented in Canadian dollars.

d) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The 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 revision and further periods if the review affects both current and future periods.

2. BASIS OF PRESENTATION (cont'd)

d) Use of estimates and judgments (cont'd)

Key sources of estimation uncertainty

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

i) Share-based compensation

Share-based compensation expense is estimated using the Black-Scholes option pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of highly subjective assumptions, including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate.

ii) Deferred tax assets

Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

iii) Valuation of right-of-use asset and lease liabilities

The application of IFRS 16 *Leases* requires the Company to make judgments that affect the valuation of the right-of-use assets and the valuation of lease liabilities. These include: determining agreements in the scope of IFRS 16, determining the contract term and determining the interest rate used for the discounting of cash flows.

The lease term determined by the Company is comprised of the non-cancellable period of lease agreements, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise those options.

The present value of the lease payment is determined using a discount rate representing the rate of its loan payable observed in the period when the lease agreement commences or is modified.

iv) Intangible assets and goodwill

Management has determined that capitalized intangible asset costs may have future economic benefits and may be economically recoverable. Management uses estimates in determining the recoverable amount of intangible assets and goodwill. The determination of the recoverable amount for the purposes of impairment testing requires the use of estimates, such as anticipated future cash flows and discount rates.

The amortization expense related to intangible assets is determined using estimates relating to the useful life of the intangible asset.

2. BASIS OF PRESENTATION (cont'd)

d) Use of estimates and judgments (cont'd)

Significant judgments in applying accounting policies

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the Company's condensed consolidated interim financial statements are as follows:

i) Business combinations

The determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The transaction with 3a GmbH was determined to constitute a business acquisition.

ii) Determination of functional currency

The Company determines the functional currency through an analysis of several indicators, such as expenses and cash flow, financing activities, retention of operating cash flows and frequency of transactions within the reporting entity.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2021.

4. BUSINESS COMBINATION

3a-diagnostics GmbH

On July 15, 2021, the Company entered into a definitive share purchase agreement to acquire all the issued and outstanding shares of 3a GmbH. As consideration, the Company shall pay the following; 1) 400,000 € cash due immediately, and 2) 3,500,000 € cash due upon closing.

The Company closed the share purchase agreement on December 1, 2021 and paid 200,000 € ($289,152) on July 20, 2021, 200,000 € ($289,152) on July 21, 2021 and paid 3,500,000 € ($5,060,164) plus interest of 24,137 € ($34,897) on closing. The euro/Canadian dollar exchange rate on the date of the transaction was 1.4458. In addition, under the terms of the acquisition, if the Company transfers 3a GmbH shares in whole or in part to a third party within two years from the closing date, the sellers will receive a total of 10% of any additional proceeds.

(Expressed in Canadian dollars)

4. BUSINESS COMBINATION (cont'd)

3a-diagnostics GmbH (cont'd)

The acquisition has been accounted for as a business combination as at the time of the transaction, 3a GmbH met the definition of a business. The purchase price of the acquisition has primarily been allocated as follows:

Purchase price		
Cash	**$**	**5,673,365**
Cash	$	817,753
Amounts receivable		26,126
Marketable securities		200,000
Prepaid expenses		5,812
Equipment		1,997
Intangible asset		1,012,033
Right-of-use asset		14,003
Goodwill		4,874,892
Accounts payable and accrued liabilities		(966,151)
Lease liability		(16,100)
Deferred tax liability		(297,000)
	$	**5,673,365**

Marketable securities relates to 200,000 common shares of the Company held by 3a GmbH at the date of acquisition. Subsequent to the acquisition, the shares have been accounted for as treasury shares (Note 10(b)).

The above acquisition contributed revenue of $nil and a net loss of $50,155 to the Company's 2021 consolidated results since the date of acquisition. If the acquisition had occurred on January 1, 2021, based on unaudited information, management estimates that the Company's consolidated net loss would have decreased by approximately $457,000 for the year ended December 31, 2021.

Goodwill arising from the acquisition represents expected synergies, future income, growth, assembled workforce and other intangibles that do not qualify for separate recognition. None of the goodwill arising from this acquisition is expected to be deductible for tax purposes.

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Land	Office Equipment and Fixtures	Computer Hardware	Testing, Lab Equipment and Machines	Total
	$	$	$	$	$
Cost					
Balance at January 1, 2021	-	77,976	28,376	1,117,862	1,224,214
Additions	348,518	32,667	-	71,162	452,347
Addition from acquisition of 3a GmbH (Note 4)	-	-	1,997	-	1,997
Dispositions	-	-	-	(217,491)	(217,491)
Cumulative translation adjustment	-	(5,653)	(285)	(44,820)	(50,758)
Balance at December 31, 2021	348,518	104,990	30,088	926,713	1,410,309
Cumulative translation adjustment	-	(3,042)	(128)	(22,075)	(25,245)
Balance at March 31, 2022	**348,518**	**101,948**	29,960	**904,638**	**1,385,064**
Accumulated Depreciation					
Balance at January 1, 2021	-	11,397	14,596	160,684	186,677
Depreciation	-	13,394	8,566	157,187	179,147
Cumulative translation adjustment	-	(896)	(261)	(12,095)	(13,252)
Balance at December 31, 2021	-	23,895	22,901	305,776	352,572
Depreciation	-	3,361	1,862	38,095	43,318
Cumulative translation adjustment	-	(651)	(128)	(8,234)	(9,013)
Balance, March 31, 2022	**-**	**26,605**	24,635	**335,637**	**386,877**
Carrying Amounts					
As at December 31, 2021	348,518	81,095	7,187	620,937	1,057,737
As at March 31, 2022	**348,518**	**75,343**	5,325	**569,001**	**998,187**

6. INTANGIBLE ASSETS AND GOODWILL

On August 20, 2018, the Company signed an exclusive dealing agreement with Dr. Raimar Löbenberg (“Löbenberg”) with respect to commercial operations under the license issued pursuant to the Canadian *Controlled Drugs and Substance Act* held by Löbenberg and Löbenberg ’s cannabis related research and associated intellectual property. The agreement grants the Company an exclusive right to benefit from the exercise of Löbenberg’s rights under the license. The exclusivity period commences on the closing date of the agreement and expires on the earlier of (i) termination of the agreement, and (ii) the date that the last shares are released from escrow.

During the year ended December 31, 2019, as part of the acquisition of the Company’s wholly owned subsidiary, Vektor, the Company acquired several narcotics licenses and permits pursuant to EU GMP certification and other governing regulations.

(Expressed in Canadian dollars)

6. INTANGIBLE ASSETS AND GOODWILL (cont'd)

During the year ended December 31, 2021, as part of the acquisition of 3a GmbH (Note 4), the Company recognized an intangible asset of $1,012,033, which represents intellectual property. The valuation of the intangible asset was based on the build up of costs incurred by 3a GmbH as of the acquisition date.

	Right-to-use License $	Intellectual Property $	Web Design and Software $	Licenses and Permits $	Total $
Cost					
Balance at January 1, 2021	1	-	26,664	1	26,666
Cumulative translation adjustment	-	-	(64)	-	(64)
Addition from acquisition	-	1,012,033	-	-	1,012,033
Balance at December 31, 2021	1	1,012,033	26,600	1	1,038,635
Cumulative translation adjustment	-	-	(29)	-	(29)
Balance at March 31, 2022	1	1,012,033	26,571	1	1,038,606
Accumulated Amortization					
Balance at January 1, 2021	-	-	11,907	-	11,907
Amortization	-	-	8,112	-	8,112
Cumulative translation adjustment	-	-	(64)	-	(64)
Balance at December 31, 2021	-	-	19,955	-	19,955
Amortization	-	-	3,983	-	3,983
Cumulative translation adjustment	-	-	(31)	-	(31)
Balance, March 31, 2022	-	-	23,907	-	23,907
Carrying Amounts					
As at December 31, 2021	1	1,012,033	6,645	1	1,018,680
As at March 31, 2022	1	1,012,033	2,664	1	1,014,699

The net change in goodwill is as follows:

As at December 31, 2020	$	-
Addition from acquisition of 3a GmbH (Note 4)		4,874,892
As at December 31, 2021 and March 31, 2022	**$**	**4,874,892**

7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company and its wholly owned subsidiaries have various property rental lease agreements in place ranging from 3 to 10 years in length of term. Right-of-use assets consist of the Bunker facility and I operational space for Vektor and 3a GmbH. As at December 31, 2021, the Company was not utilizing the Bunker facility, and subsequent to year-end, the Company terminated the Bunker facility lease. As a result, the Company recognized an impairment charge of $3,459,480 on the right-of-use asset at December 31, 2021.

(Expressed in Canadian dollars)

7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (cont'd)

		March 31, 2022		**December 31, 2021**
Right-of-Use Assets				
Opening balance	$	71,449	$	4,202,052
Additions from acquisition (Note 4)		-		14,003
Depreciation		(10,105)		(635,956)
Lease termination		-		(16,096)
Write-down of right-of-use asset		-		(3,459,481)
Cumulative translation adjustment		(2,060)		(6,560)
Foreign exchange		(413)		(26,513)
	$	**58,871**	**$**	**71,449**
Lease Liabilities				
Opening balance	$	818,039	$	938,800
Additions from acquisition (Note 4)		-		16,100
Payments		(37,915)		(134,605)
Lease termination		-		(18,527)
Accrued interest		20,018		86,436
Cumulative translation adjustment		(2,325)		(7,161)
Foreign exchange		(28,380)		(63,004)
	$	**769,437**	**$**	**818,039**
Current portion	$	90,035	$	152,979
Non-current portion	$	679,402	$	665,060

Using the March 31, 2022 period-end exchange rate, the estimated annual commitment over the term of the leases is as follows:

2022	$	110,958
2023	$	210,178
2024	$	178,427
2025	$	181,751
2026	$	185,076
2027 and beyond	$	125,231

Subsequent to March 31, 2022, the Company completed a termination agreement on the Bunker facility lease, and as a result, the lease liability was reduced by $702,441.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		March 31, 2022		**December 31, 2021**
Trade payables	$	533,365	$	524,695
Accrued liabilities		1,723,166		1,795,530
	$	**2,256,531**	**$**	**2,320,225**

9. CONVERTIBLE DEBT

On January 22, 2020, the Company signed a three-year definitive supply, import and distribution agreement (the "Agreement") with PharmaCielo Ltd. ("PharmaCielo"). Pursuant to the Agreement, the Company closed a subscription receipt whereby PharmaCielo agreed to purchase $500,000 of convertible debentures of the Company. The convertible debentures were issued on January 31, 2020 as part of the non-brokered private placement described below. The Company also issued PharmaCielo an additional 500,000 share purchase warrants exercisable by the holder into common shares of the Company at a price of $2 per common share for a period of two years. The warrants, which were expensed as marketing and advertising costs, had a fair value of $355,935, estimated using the Black-Scholes option pricing model with a volatility of 95%, risk-free interest rate of 1.43%, dividend rate of 0% and expected life of 2 years.

On January 31, 2020, the Company closed the sale of 2,000 convertible debenture units for gross proceeds of $2,000,000 pursuant to a non-brokered private placement. Each debenture unit consists of: (i) $1,000 principal amount of 8% unsecured convertible debenture, and (ii) 1,000 common share purchase warrants. The debentures bear interest at 8% per annum, calculated and payable semi-annually and mature two years following the date of issuance. The debentures are convertible at the option of the holder into common shares of the Company at a conversion price of $1.00 per common share. Conversion of the debentures may be forced in part or in whole at the option of the Company if the 15-day volume weighted average price of the common shares on the CSE exceeds $2.50 per share.

Each warrant is exercisable to acquire one common share at an exercise price of $1.50 until January 31, 2022. In connection with the offering, the Company paid a cash fee of $120,000 and issued 120,000 finders' warrants to a finder. Each finder's warrant entitles the holder thereof to purchase one common share at an exercise price of $1 per share until January 31, 2022. The finders' warrants had a fair value of $118,037 estimated using the Black-Scholes option pricing model with a volatility of 95%, risk-free interest rate of 1.55%, dividend rate of 0% and expected life of 2 years.

The debentures are compound instruments, and the proceeds are required to be bifurcated to record the fair value of the separate debt and equity components. The fair value of the debt was determined using a discounted cash flow model using an estimated market interest rate for equivalent debt of 16%. The initial fair value of the debt was calculated to be $1,709,444 with the residual portion of $290,556 allocated to both equity ($132,769) and the warrants ($157,787). Transaction costs totalled $248,331, of which $212,254 were allocated to the liability component and offset the carrying value and are amortized using the effective interest method as finance costs over the expected life of the debentures. Transactions costs of $16,485 were charged to the equity component and $19,592 were charged to the warrant component. In addition, the resulting deferred tax amount of $78,451 has been charged to both the equity ($35,848) and warrant ($42,603) components.

9. CONVERTIBLE DEBT (cont'd)

On December 8, 2020, the Company issued a $3,000,000 unsecured convertible debenture pursuant to a non-brokered private placement. The convertible debenture accrues interest at 8% per annum, calculated and payable semi-annually on June 30 and December 31 of each calendar year, and matures two years from the date of issue, on December 8, 2022. The principal amount of the debenture is convertible into common shares of the Company at the election of the holder, in whole or in part, at any time prior to the maturity date at a conversion price of $1.77. Conversion of the debentures may be forced in whole at the option of the Company if the 15-day volume weighted average price of the common shares on the CSE exceeds $4.425 per share. In connection with the offering, the Company paid a cash fee of $240,000 and issued 135,593 finders' warrants to a finder. Each finder's warrant entitles the holder thereof to purchase one common share at an exercise price of $1.77 until December 8, 2022. The finders' warrants had a fair value of $126,905 estimated using the Black-Scholes option pricing model with a volatility of 81%, risk-free interest rate of 0.27%, dividend rate of 0% and expected life of 2 years. The fair value of the debt was determined using a discounted cash flow model using an estimated market interest rate for equivalent debt of 16%. The initial fair value of the debt was calculated to be $2,570,231 with the residual portion of $429,769 allocated to equity. Transaction costs totalled $367,440, of which $314,802 were allocated to the liability component and offset the carrying value and are amortized using the effective interest method as finance costs over the expected life of the debentures. Transactions costs of $52,638 and the resulting deferred tax amount of $116,038 have both been charged to the equity component.

On November 25, 2021, the Company closed the sale of 2,000,000 convertible debenture units for gross proceeds of $2,500,000 pursuant to a non-brokered private placement. Each debenture unit consists of: (i) $1.25 principal amount of 8% unsecured convertible debenture, and (ii) one common share purchase warrant. The debentures bear interest at 8% per annum, calculated and payable semi-annually and mature two years following the date of issuance. The debentures are convertible at the option of the holder into common shares of the Company at a conversion price of $1.25 per common share. Conversion of the debentures may be forced in part or in whole at the option of the Company if the 15-day volume weighted average price of the common shares on the CSE exceeds $3.125 per share.

Each warrant is exercisable to acquire one common share at an exercise price of $1.50 until November 25, 2023. In connection with the offering, the Company paid a cash fee of $200,000 and issued 160,000 finders' warrants to a finder. Each finder's warrant entitles the holder thereof to purchase one common share at an exercise price of $1.50 until November 25, 2023. The finders' warrants had a fair value of $74,581 estimated using the Black-Scholes option pricing model with a volatility of 78.91%, risk-free interest rate of 1.08%, dividend rate of 0% and expected life of 2 years.

The debentures are compound instruments, and the proceeds are required to be bifurcated to record the fair value of the separate debt and equity components. The fair value of the debt was determined using a discounted cash flow model using an estimated market interest rate for equivalent debt of 16%. The initial fair value of the debt was calculated to be $2,145,412 with the residual portion of $354,588 allocated to both equity ($165,219) and the warrants ($189,369). Transaction costs totalled $276,135, of which $236,968 were allocated to the liability component and offset the carrying value and are amortized using the effective interest method as finance costs over the expected life of the debentures. Transactions costs of $18,249 were charged to the equity component and $20,916 were charged to the warrant component. In addition, the resulting deferred tax amount of $95,739 has been charged to both the equity ($44,609) and warrant ($51,130) components.

Debentures with a principal amount of $1,650,000 were converted by the holders on June 3, 2020, with the debt having a value of $1,312,983 at the date of conversion.

Debentures with a principal amount of $250,000 were converted by the holder on July 9, 2020, with the debt having a value of $185,220 at the date of conversion.

(Expressed in Canadian dollars)

9. CONVERTIBLE DEBT (cont'd)

Debentures with a principal amount of $100,000 were converted by the holder on January 13, 2022, with the debt having a value of $97,933 at the date of conversion.

		March 31, 2022		**December 31, 2021**
Opening balance	$	4,637,710	$	2,374,220
Additions from principal amounts		-		2,500,000
Equity component		-		(165,219)
Warrant component		-		(189,369)
Transaction costs		-		(236,968)
Accrued interest (accretion)		261,371		645,429
Payments		(307)		(290,383)
Conversion		(97,933)		-
	$	4,800,841	$	4,637,710
Current portion	$	3,045,830	$	2,976,431
Non-current portion	$	1,755,011	$	1,661,279

10. SHARE CAPITAL

a) Common shares

Authorized

The authorized share capital of the Company is an unlimited number of common shares without par value.

Transactions in Period Ended March 31, 2022

On January 13, 2022, the Company issued 100,000 common shares at a value of $98,133 pursuant to a convertible debt conversion (Note 9). Upon conversion, $4,022 was allocated from equity component of convertible debt to share capital.

On March 31, 2022, the Company closed the first tranche of a non-brokered private placement and issued 1,250,000 common shares at $1 per common share for gross proceeds of $1,250,000. The Company paid finders' fees of $100,000 and also issued 100,000 finders' warrants to purchase an aggregate 100,000 common shares at an exercise price of $1 for a period of two years from closing. The finders' warrants had a fair value of $30,772, estimated using the Black-Scholes option pricing model with a volatility of 73.53%, risk-free interest rate of 2.31%, dividend rate of 0% and expected life of 2 years.

During the three months ended March 31, 2022, the Company issued 714,000 common shares for proceeds of $357,000 in connection with the exercise of 714,000 stock options. Upon exercise, $163,412 was allocated from reserves to share capital.

As of March 31, 2022, there are 2,090,560 (December 31, 2021 - 3,371,869) common shares subject to escrow, which includes 112,500 (December 31, 2021 - 225,000) common shares issued to current and former officers of the Company that will be released from escrow in tranches over 36 months from date of listing on the CSE, being July 31, 2019.

10. SHARE CAPITAL (cont'd)

a) Common shares (cont'd)

Transactions in Year Ended December 31, 2021

On January 15, 2021, the Company issued 1,500,000 units at $1.90 per unit for gross proceeds of $2,850,000. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one additional common share at a price of $2.20 for a period of two years from closing. The Company paid finders' fees and costs of $228,100 and also issued 120,000 finders' warrants to purchase an aggregate 120,000 common shares at a price of $1.90 per share for a period of two years from closing. The finders' warrants had a fair value of $135,518, estimated using the Black-Scholes option pricing model with a volatility of 83.67%, risk-free interest rate of 1.05%, dividend rate of 0% and expected life of 2 years.

On March 12, 2021, the Company issued 5,380 common shares at a value of $16,950 pursuant to a marketing agreement.

On March 18, 2021, the Company issued 50,000 common shares at a value of $147,500 pursuant to a development, technology purchase and license agreement.

On June 17, 2021, the Company issued 7,957 common shares at a value of $16,950 pursuant to a marketing agreement.

On August 4, 2021, the Company issued 100,000 common shares at a value of $194,000 pursuant to a development, technology purchase and license agreement.

On September 21, 2021, the Company issued 10,398 common shares at a value of $16,949 pursuant to a marketing agreement.

On October 8, 2021, the Company issued 140,000 common shares at a value of $183,400 pursuant to a corporate advisory and media agreement.

On November 25, 2021, the Company issued 4,500,000 common shares at $1 per common share for gross proceeds of $4,500,000. The Company paid finders' fees of $360,000 and also issued 360,000 finders' warrants to purchase an aggregate 360,000 common shares at an exercise price of $1.11 per share for a period of two years from closing. The finders' warrants had a fair value of $181,984, estimated using the Black-Scholes option pricing model with a volatility of 78.91%, risk-free interest rate of 1.08%, dividend rate of 0% and expected life of 2 years.

During the year ended December 31, 2021, the Company issued 8,940,275 common shares for proceeds of $7,534,096 in connection with the exercise of 8,940,275 share purchase warrants. Upon exercise, $113,946 was allocated from reserves to share capital.

During the year ended December 31, 2021, the Company issued 50,000 common shares for proceeds of $62,500 in connection with the exercise of 50,000 stock options. Upon exercise, $31,556 was allocated from reserves to share capital.

b) Treasury shares

In connection with the acquisition of 3a GmbH, the Company reacquired 200,000 common shares of its own equity. On February 1, 2022, through a private sale with an arm's length party, the Company sold the shares for $200,000.

(Expressed in Canadian dollars)

10. SHARE CAPITAL (cont'd)

c) Share purchase warrants

The following is a summary of changes in warrants from January 1, 2020 to March 31, 2022:

	Number of Warrants	Weighted Average Exercise Price $
Balance at January 1, 2021	16,135,050	0.99
Issued	4,140,000	1.72
Exercised	(8,940,275)	0.84
Expired	(5,457,650)	1.06
Balance at December 31, 2021	5,877,125	1.68
Issued	100,000	1.00
Expired	(1,258,000)	1.70
Balance at March 31, 2022	4,719,125	1.66

As at March 31, 2022, the Company had outstanding warrants as follows:

Number Outstanding	Exercise Price $	Expiry Date
50,000	1.00	September 13, 2022
135,593	1.77	December 8, 2022
1,500,000	2.20	January 15, 2023
120,000	1.90	January 15, 2023
293,532	1.00	March 13, 2023
360,000	1.11	November 25, 2023
160,000	1.25	November 25, 2023
2,000,000	1.50	November 25, 2023
100,000	1.00	March 30, 2024
4,719,125		

The Company recorded share issue costs of $30,772 (March 31, 2021 - $91,985) representing the fair value of 100,000 (March 31, 2021 - 120,000) finder's warrants granted during the period ended March 31, 2022 or $0.31 (March 31, 2021 - $0.77) per warrant. All finders' warrant grants were valued using the Black-Scholes option pricing model with the following assumptions:

	March 31, 2022	March 31, 2021
Volatility	73.53%	83.67%
Risk-free interest rate	2.31%	0.15%
Expected life of warrant	2 years	2 years
Dividend yield	0%	0%

11. SHARE-BASED COMPENSATION

The Company held its shareholders' meeting on December 10, 2018 where the shareholders approved adoption of the stock option plan in accordance with the policies of the CSE. The directors are authorized to grant stock options to directors, officers, consultants or employees. Options granted under the plan will have the term, exercise price and vesting determined by the directors.

(Expressed in Canadian dollars)

11. SHARE-BASED COMPENSATION (cont'd)

Share option transactions from January 1, 2021 to March 31, 2022 are as follows:

	Number of Options	Weighted Average Exercise Price $
Balance at January 1, 2021	4,525,000	1.58
Issued	4,445,000	1.61
Expired	(1,625,000)	2.44
Forfeited	(920,000)	1.39
Exercised	(50,000)	1.25
Balance at December 31, 2021	6,375,000	1.41
Expired	(150,000)	2.23
Exercised	(714,000)	0.50
Balance at March 31, 2022	5,511,000	1.51
Exercisable at March 31, 2022	5,286,000	1.51

As at March 31, 2022, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable	Exercise Price $	Expiry Date
300,000	300,000	2.55	January 19, 2023
225,000	225,000	2.75	February 10, 2023
50,000	50,000	2.85	February 15, 2023
125,000	125,000	2.83	March 2, 2023
350,000	350,000	2.14	June 1, 2023
600,000	450,000	1.40	October 1, 2023
875,000	800,000	1.35	October 7, 2023
100,000	100,000	1.25	November 29, 2023
286,000	286,000	0.50	December 20, 2023
600,000	600,000	1.25	August 7, 2024
250,000	250,000	1.80	November 1, 2025
1,750,000	1,750,000	1.25	November 29, 2026
5,511,000	5,286,000		

The Company recorded share-based compensation of $48,539 (March 31, 2021 - $896,647) for the period ended March 31, 2022. The fair value of the options granted during the period ended March 31, 2022 was $nil (March 31, 2021 - $884,392) or $nil (March 31, 2021 - $1.16) per option. The fair value of options vesting during the three months ended March 31, 2022 was $48,539 (March 31, 2021 - $12,255). All option grants were valued using the Black-Scholes option pricing model with the following assumptions:

	March 31, 2022	March 31, 2021
Volatility	N/A	80.08% – 80.61%
Risk-free interest rate	N/A	0.15% – 0.31%
Expected life of option	N/A	2 years
Dividend yield	N/A	0%

(Expressed in Canadian dollars)

12. REVENUES

Revenue disaggregated by revenue stream and timing of revenue recognition are as follows:

	Three Months Ended March 31, 2022		Three Months Ended March 31, 2021
Product sales	$	77,951	$	-
Consulting, service and other		43,475		3,698
	$	121,426	$	3,698

13. RELATED PARTY TRANSACTIONS

Key management personnel are the persons responsible for planning, directing and controlling the activities of the Company, and include both executive and non-executive directors and entities controlled by such persons. The Company considers its directors, Chief Executive Officer and Chief Financial Officer of the Company and its managing directors of the German subsidiaries to be key management personnel.

The following is a summary of the Company's key management compensation:

		Three Months Ended March 31, 2022		2022
Salaries, benefits and other remuneration	$	150,093	$	128,287
Consulting fees	$	78,000	$	-
Directors' fees (recovery)	$	(33,000)	$	-
Research and lab fees	$	62,516	$	76,812

As at March 31, 2022, $62,394 (December 31, 2021 - $50,038) remained unpaid and has been included in accounts payable and accrued liabilities.

During the period ended March 31, 2022, the Company incurred $nil (March 31, 2021 - $8,095) in professional fees to a company controlled by the former Chief Financial Officer of the Company.

14. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company considers its capital for this purpose to be its shareholders' equity.

The Company's primary source of capital is through the issuance of equity. The Company manages and adjusts its capital structure when changes in economic conditions occur. To maintain or adjust the capital structure, the Company may seek additional funding. The Company may require additional capital resources to meet its administrative overhead expenses in the long term. The Company believes it will be able to raise capital as required in the long term, but recognizes there will be risks involved that may be beyond its control. There are no external restrictions on the management of capital. There have been no changes to the management of capital during the current fiscal period.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

Cash is carried at fair value using Level 1 fair value measurement. The carrying values of amounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments. The carrying values of convertible debt and lease liabilities approximate fair values, as there has not been any significant changes in interest rates since initial recognition.

The Company records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market prices (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal and external valuation models, such as discounted cash flow analyses, using, to the extent possible, observable market-based inputs.

The financial instruments have been characterized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

The three levels of fair value estimation are:

Level 1 – quoted prices in active markets for identical instruments.

Level 2 – quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company has exposures to risks of varying degrees of significance that could affect its ability to achieve its strategic objectives. The type of risk exposure and the way in which such exposure is managed is provided as follows:

<u>Credit risk</u>

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk at March 31, 2022 under its financial instruments is approximately $2.2 million.

Most of the Company's cash is held with a major financial institution in Canada and management believes the exposure to credit risk with respect to such institution is not significant. The Company actively monitors its amounts receivable and believes the exposure to credit risk is insignificant.

<u>Interest rate risk</u>

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company currently has no debt subject to variable interest rates. Accordingly, the Company has limited exposure to interest rate movements.

<u>Liquidity risk</u>

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it projects the funds required to support its operations.

Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign exchange rate risk

The Company operates in Canada and Germany and is, therefore, exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of the Company, and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The Company is exposed to foreign currency risk through the following financial assets and liabilities held in Euros (translated to Canadian dollars):

	March 31, 2022 $	December 31, 2021 $
Cash	752,570	1,007,842
Amounts receivable	282,106	457,537
Total financial assets	1,034,676	1,465,379
Accounts payable and accrued liabilities	(1,525,245)	(1,593,816)
Lease liability	(769,437)	(818,038)
Net statement of financial position exposure	(1,260,006)	(946,475)

At March 31, 2022, a 10% appreciation (depreciation) in the value of the euro against the Canadian dollar, with all other variables held constant, would result in approximately a $126,000 increase (decrease) in the Company's net loss for the period.

16. SEGMENTED INFORMATION

The Company has one operating segment. Information by geographical area is as follows:

		March 31, 2022		March 31, 2021
Revenues				
Germany	$	48,555	$	3,698
Austria		42,055		-
Israel		29,396		-
Switzerland		1,420		-
	$	121,426	$	3,698
Non-current assets				
Canada	$	228,628	$	541,694
Germany		6,718,021		4,481,138
	$	6,946,649	$	5,022,832

17. COMMITMENTS

On December 7, 2018, the Company and the University of Alberta ("UoA") executed an exclusive five-year product manufacturing agreement pursuant to which the Faculty of Pharmacy and Pharmaceutical Sciences agreed to manufacture cannabis-based extracts and isolates. The Company is responsible to provide any necessary equipment for the manufacture of the extracts and isolates and will pay UoA an annual fee estimated at $140,000.

In February 2021, the Company signed an agreement with Applied Pharmaceutical Innovation for the synthesis of pharmaceutical grade psychedelic compounds and the parallel development of the standard operating procedures necessary to obtain regulatory approval for the respective commercial production process. The Company will fund all infrastructure and initial lab set up costs, which are estimated at $663,000. The Company will also fund the monthly operation cost at $20,000 per month.

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the period ended March 31, 2022 consisted of:

a) The issuance of 100,000 finders' warrants with a fair value of $30,772 related to the issuance of shares.

b) The conversion of convertible debt with a principal amount of $100,000 for extinguishment of $98,133 of liability and a transfer of $4,022 from the equity component of convertible debt to share capital.

c) The reversal of reserves to share capital of $163,412 on exercise of stock options and the reversal of reserves to deficit of $166,252 on expired options.

Significant non-cash transactions for the period ended March 31, 2021 consisted of:

d) The issuance of 5,380 common shares with a fair value of $16,950 pursuant to a marketing agreement.

e) The issuance of 50,000 common shares with a fair value of $147,500 pursuant to a development, technology purchase and license agreement.

f) The issuance of 120,000 finders' warrants with a fair value of $91,985 related to the issuance of shares.

19. SUBSEQUENT EVENT

a) On April 22, 2022, the Company closed the second and final tranche of a non-brokered private placement and issued 1,050,000 common shares at $1 per common share for gross proceeds of $1,050,000. The Company paid finders' fees of $84,000 and issued 84,000 finders' warrants to purchase an aggregate 84,000 common shares at an exercise price of $1 per share for a period of two years from closing.