OVATION SCIENCE INC.

Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Expressed in Canadian dollars

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Independent Auditor's Report

To the Shareholders of Ovation Science Inc.

Opinion

We have audited the consolidated financial statements of Ovation Science Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is David Goertz.

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

May 1, 2023

OVATION SCIENCE INC.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at December 31,	Note		2022		2021
ASSETS					
Current assets					
Cash		$	28,901	$	647,561
Trade and other receivables	3, 14		60,391		93,946
Prepaids	4		7,775		12,680
Inventory	5		2,315		4,000
			99,382		758,187
Equipment	7		5,504		11,709
Total assets		$	104,886	$	769,896
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and other liabilities	8, 14	$	146,703	$	63,741
Promissory note	9, 14		23,072		-
Total current liabilities			169,775		63,741
Convertible note	10, 14		18,063		-
Total liabilities			187,838		63,741
Shareholders' equity					
Share capital	11		4,280,458		4,280,458
Reserves	12		1,400,950		1,398,848
Accumulated other comprehensive income			14,231		11,388
Deficit			(5,778,591)		(4,984,539)
Total shareholders’ equity			(82,952)		706,155
Total liabilities and shareholders’ equity		$	104,886	$	769,896

Nature of business and going concern (Note 1)
Subsequent events (Note 18)

These consolidated financial statements were approved by the Board of Directors on May 1, 2023:

“Logan Anderson” Director *“Terry Howlett”* Director

OVATION SCIENCE INC.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

Years ended December 31,	Note		2022		2021
Revenue					
Product sales		$	9,733	$	73,909
Royalty fees			128,421		135,998
Research services			-		15,042
	13		138,154		224,949
Cost of sales	5		(2,976)		(36,954)
Gross margin			135,178		187,995
Operating expenses					
Advertising and promotion			19,927		33,724
Depreciation	7		6,731		8,022
Investor relations			48,036		146,110
Management and director fees	14		367,776		356,725
Office and general			241,407		245,849
Product development			65,272		83,066
Professional fees			178,358		138,761
Royalty fees			37		4,867
Write-down of inventory	5		1,033		841,490
Write-down of licenses	6		-		741,995
			928,577		2,600,609
Other items					
Interest expense	9, 10		(588)		-
Interest income			3		4,716
Gain on discount of promissory note	9, 14		4,156		-
Write-off of trade receivables	3		(52)		-
Gain on reversal of accounts payable	8		-		16,050
Foreign exchange loss			(4,172)		(1,929)
Net loss			(794,052)		(2,393,777)
Items that may be reclassified to profit or loss					
Foreign currency translation to reporting currency			2,843		(8,418)
Net loss and comprehensive loss		$	(791,209)	$	(2,402,195)
Loss per share – basic and diluted		$	(0.03)	$	(0.08)
Basic and diluted weighted average number of common shares outstanding			29,374,836		29,374,836

The accompany notes are an integral part of these consolidated financial statements.

OVATION SCIENCE INC.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Share capital									
	Number		Amount		Reserves		Accumulated Other Comprehensive Loss		Deficit		Total shareholders' equity
Balance at December 31, 2020	29,374,836	$	4,280,458	$	1,398,848	$	19,806	$	(2,590,762)	$	3,108,350
Foreign currency translation adjustment	-		-		-		(8,418)		-		(8,418)
Net loss for the year	-		-		-		-		(2,393,777)		(2,393,777)
Balance at December 31, 2021	29,374,836	$	4,280,458	$	1,398,848	$	11,388	$	(4,984,539)	$	706,155
Convertible note issuance	-		-		2,102		-		-		2,102
Foreign currency translation adjustment	-		-		-		2,843		-		2,843
Net loss for the year	-		-		-		-		(794,052)		(794,052)
Balance at December 31, 2022	29,374,836	$	4,280,458	$	1,400,950	$	14,231	$	(5,778,591)	$	(82,952)

The accompany notes are an integral part of these consolidated financial statements.

OVATION SCIENCE INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31,		2022		2021
OPERATING ACTIVITIES				
Net loss for the year	$	(794,052)	$	(2,393,777)
Adjustments for non-cash items:				
Depreciation		6,731		8,022
Interest expense		277		-
Gain on discount of promissory note		(4,156)		-
Unrealized foreign exchange gain		(2,460)		-
Write-off of trade and other receivables		52		-
Write-down of inventory		1,033		841,490
Write-down of licenses		-		741,995
Changes in working capital items:				
Trade and other receivables		36,159		(44,012)
Prepaid expenses		5,169		2,598
Inventory		813		37,464
Accounts payable and other liabilities		79,631		(79,532)
Cash flows used in operating activities		(670,803)		(885,752)
INVESTING ACTIVITIES				
Redemptions of short-term investments		-		1,157,575
Cash flows provided by investing activities		-		1,157,575
FINANCING ACTIVITIES				
Proceeds received for convertible note		20,000		-
Proceeds received for promissory note		27,242		-
Cash flows provided by financing activities		47,242		-
Effect of foreign exchange on cash		4,901		(4,883)
Change in cash		(618,660)		266,940
Cash, beginning		647,561		380,621
Cash, ending	$	28,901	$	647,561

The accompany notes are an integral part of these consolidated financial statements.

1. NATURE OF BUSINESS AND GOING CONCERN

Ovation Science Inc. (the "Company") was incorporated in the Province of British Columbia on July 18, 2017, under the Business Corporations Act of British Columbia. The Company is in the business of providing topical and transdermal cannabis products under the "Ovation" brand label utilizing patented "Invisicare" delivery technology which it acquired for exclusive use for cannabis formulated products from Skinvisible Pharmaceuticals, Inc. ("Skinvisible"). On February 3, 2020, the Company acquired the exclusive world-wide rights to a DermSafe® Hand Sanitizer, the Company's first non-cannabis product. The Company's shares are traded on the Canadian Securities Exchange under the symbol "OVAT" and the US exchange OTCQB under the symbol "OVATF".

The Company's head office is located at Suite 1140 – 625 Howe Street, Vancouver, B.C. V6C 2T6, and its registered office is Suite 704, 595 Howe Street, Vancouver, B.C. V6C 2T5.

The Company's wholly owned subsidiary, Ovation Science USA Inc.'s operations are located in Las Vegas, Nevada.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at December 31, 2022, the Company's current liabilities exceeded its current assets by $70,393. The Company is not able to finance day to day activities through operations and has incurred losses since inception. The continuing operations of the Company are dependent upon its ability to develop a viable business and to attain profitable operations and generate funds there from. This indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs with loans from directors and companies controlled by directors and/or issuance of common shares. If the Company is unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its consolidated statements of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors on May 1, 2023.

Basis of measurement
These consolidated financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

Basis of consolidation
These consolidated financial statements include the amounts of the Company and its wholly-owned subsidiary, Ovation Science USA Inc. All inter-company balances, transactions, income and expenses have been eliminated upon consolidation.

Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an entity, when the Company is exposed, or has rights, to variable returns from the entity and when the Company has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant estimates and judgments

Significant estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the recoverability of trade and other receivables, impairment of non-financial assets, fair value measurement of intangible assets, useful lives of equipment and intangible asset, fair value measurements for financial instruments, fair value measurements for share-based payments and the recoverability and measurement of deferred tax liability.

Significant judgements

The preparation of financial statements in accordance with IFRS requires the Company to make judgements, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

a) The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
b) The assessment of the Company's functional currency; and
c) The classification of financial instruments.

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Financial instruments

Recognition, classification and measurement

Financial assets are classified and measured based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 contains three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. Financial assets are recognized in the statements of financial position if the Company has a contractual right to receive cash or other financial assets from another entity. Financial assets are derecognized when the rights to receive cash flows from the asset have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has classified its trade and other receivables, accounts payable and other liabilities, promissory notes and convertible notes as financial assets and financial liabilities measured at amortized cost. Such assets and liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses. The Company has classified its cash as a financial asset measured at fair value through profit and loss.

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company's derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Changes in the fair values of derivative financial instruments are reported in the consolidated statements of loss and comprehensive loss.

Impairment of financial assets
The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost. Loss allowances for accounts receivables are always measured at an amount equal to lifetime expected credit losses if the amount is not considered fully recoverable. A financial asset carried at amortized cost is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for credit-impairment on an individual basis. The remaining financial assets are assessed collectively.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in the statements of comprehensive loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statements of comprehensive loss.

Share capital
Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity, net of tax.

Foreign currency translation

The reporting currency is the Canadian dollar ("CAD"), which is the functional currency of the Company. The functional currency of Ovation Science USA Inc. is the United States dollar ("USD"). Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction, except amortization, which is translated at the rates of exchange applicable to the related assets. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the initial transaction. Non-monetary items that are measured at fair values are reported at the exchange rate on the date when fair values are determined. Foreign currency translation differences are recognized in profit or loss, except for differences on the translation of foreign entities to reporting currency on consolidation, which are recognized in other comprehensive income.

On consolidation, the assets and liabilities of entities are translated into the reporting currency at the rate of exchange at the reporting date and the consolidated statements of loss and comprehensive loss are translated at the average exchange rates for the year. The exchange differences arising on translation for consolidation purposes are recognized in other comprehensive income.

Inventory

Inventory consists of raw materials and finished goods for DermSafe, CBD products and polymer materials. Inventory is initially valued at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written down to net realizable value.

Cost of sales

Cost of sales includes the expenses incurred to acquire and produce inventory for sale, including product costs, freight costs, as well as provisions for reserves related to excess or obsolete inventory, or lower of cost and net realizable value adjustments as required.

Convertible notes

The components of the compound financial instrument (convertible note) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. The conversion option that will be settled by the exchange of a fixed amount in cash for a fixed number of equity instruments of the Company is classified as an equity instrument. At the issue date, the liability component is recognized at fair value, which is estimated using the effective interest rate on the market for similar nonconvertible instruments. Subsequently, the liability component is measured at amortized cost using the effective interest rate until it is extinguished on conversion or maturity.

The value of the conversion option classified as equity is determined at the issue date, by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is recognized in equity, net of tax effects, and is not revised subsequently. When the conversion option is exercised, the equity component of the convertible notes will be transferred to share capital. No profit or gain is recognized to the conversion or expiration of the conversion option.

Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee. The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Share-based payments are initially recorded to reserves. Subsequently, consideration paid for the shares on the exercise of share-based payments are credited to share capital. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility, interest rate and dividend yield and making assumptions about them.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component.

Loss per share

Basic loss per share is calculated by dividing the statement of loss and comprehensive loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the statement of loss and comprehensive loss and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and warrants outstanding. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price during the year.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of loss and comprehensive loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case the income tax is also recognized in other comprehensive loss or directly in equity, respectively.

Current income tax

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is recognized on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that future taxable income will be available to allow all or part of the temporary differences to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted and are expected to apply by the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax assets and deferred income tax liabilities are offset if a legally enforceable right exist to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Equipment

On initial recognition, furniture and equipment is valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company.

Equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses. At each reporting date, the Company assesses whether there is objective evidence that the furniture and equipment is impaired. If such evidence exists, the Company recognizes an impairment loss. The loss is the difference between the carrying value and recoverable value, which is the higher or fair value less costs of disposal and value in use. The carrying amount of the furniture and equipment is reduced by this amount. Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event or condition occurring after the impairment was recognized. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

	Years
Computer equipment	3
Furniture and fixtures	5

Depreciation methods, useful lives and residual values are reviewed at each financial period end and adjusted if appropriate.

Impairment

The carrying amount of the Company's assets is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Intangible assets with an indefinite useful life are tested annually for impairment. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets in the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company reports revenue under three revenue categories, being product sales, license fees and research services. Product sales revenue consists of sales and packaging fees and is accounted for as product revenue. Product revenue is recognized when control of the product has transferred under the terms of an enforceable contract. License fee revenue consists of development fees, packaging fees and any other fees associated with the License. Research services revenue consists of research and development fees.

Development and packaging fees are paid based on a percentage of net revenue of products sold by licensees and their affiliates. These sales-based fees are recognized at the later of when the sale occurs and satisfaction of the performance obligation.

Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any new standards and determined that there are no standards that are relevant to the Company.

3. TRADE AND OTHER RECEIVABLES

As at December 31,		2022		2021
Trade receivables	$	53,241	$	78,781
GST receivable		6,941		14,956
Due from related party (Note 14)		209		209
	$	60,391	$	93,946

4. PREPAIDS

As at December 31,		2022		2021
Prepaid expenses	$	7,775	$	10,180
Legal retainer		-		2,500
	$	7,775	$	12,680

5. INVENTORY

As at December 31,		2022		2021
Finished goods	$	-	$	4,000
Raw materials		2,315		-
	$	2,315	$	4,000

During the year ended December 31, 2022, the Company incurred $2,976 (2021 - $36,954) in costs of sales related to inventory. During the year ended December 31, 2022, the Company recorded a write-down of inventory of $1,033 (2021 - $841,490).

(Expressed in Canadian dollars)

6. LICENSES

On February 3, 2020, the Company entered into a License Agreement (the "License Agreement"), with Skinvisible, whereby Skinvisible granted the Company rights to Skinvisible's hand sanitizer with the brand name "DermSafe" or DermSafe PC ("DermSafe"). The License Agreement provides the Company with the right to extend the License and patent the DermSafe sanitizer by paying a renewal fee of $135,183 (USD$100,000) in two payments over three and a half years from the date of the License Agreement.

On June 10, 2020, the Company entered into a License Renewal Agreement (the "Renewal Agreement") with Skinvisible, whereby Company shall accelerate the renewal payments to June 10, 2020, totaling $135,183 (USD$100,000), in exchange for the DermSafe Health Canada Drug Identification numbers, trademarks, clinical data and certain rights to patent to the Company.

On August 25, 2022, the Company entered into a License Agreement with Stash House Distribution ("Stash House"), whereby the Company granted to Stash House an exclusive license to use its trademarks, formulations, and polymer in connection with the manufacturing, packaging, distribution, promotion, and sale of the Dispensary Products for Licensed marijuana dispensaries in Oklahoma, Missouri, New Mexico and Mississippi. As part of the consideration related to this agreement, the Company will receive a quarterly minimum packaging fee for each state within the territory beginning twelve months following the date of the first commercial sale of the product in each state. To December 31, 2022, the Company has recognized $Nil of revenue in connection with this agreement.

A continuity of the licenses is as follows:

		License
As at December 31, 2020	**$**	**741,995**
Write-down of licenses		(741,995)
As at December 31, 2021 and 2022	**$**	**-**

During the year ended December 31, 2021, the Company determined there were indicators of impairment relating to the DermSafe and Skinvisible licenses. The DermSafe and Skinvisible license are considered a cash generating unit. The recoverable amount for the DermSafe and Skinvisible licenses were determined to be a nominal amount and accordingly an impairment charge of $741,995 was recognized.

(Expressed in Canadian dollars)

7. EQUIPMENT

		Furniture and fixtures		Computer equipment		Total
Cost:						
At December 31, 2020		**15,289**		**15,289**	**$**	**30,578**
Foreign translation impact		(75)		(75)		(150)
At December 31, 2021	**$**	**15,214**	**$**	**15,214**	**$**	**30,428**
Foreign translation impact		1,039		1,039		2,078
At December 31, 2022	**$**	**16,253**	**$**	**16,253**	**$**	**32,506**
Accumulated amortization:						
At December 31, 2020	**$**	**3,996**	**$**	**6,660**	**$**	**10,656**
Depreciation		3,008		5,014		8,022
Foreign translation impact		16		25		41
At December 31, 2021	**$**	**7,020**	**$**	**11,699**	**$**	**18,719**
Depreciation		3,123		3,608		6,731
Foreign translation impact		606		946		1,552
At December 31, 2022	**$**	**10,749**	**$**	**16,253**	**$**	**27,002**
Net book value						
At December 31, 2021	$	8,194	$	3,515	$	11,709
At December 31, 2022	**$**	**5,504**	**$**	**-**	**$**	**5,504**

8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

As at December 31,		**2022**		**2021**
Accounts payable	**$**	23,816	**$**	23,561
Accrued liabilities		22,389		31,980
Due to related parties (Note 14)		100,498		8,200
	$	146,703	**$**	63,741

During the year ended December 31, 2022, the Company reversed accounts payable of $Nil (2021 - $16,050) owing to a vendor.

9. PROMISSORY NOTE

On December 20, 2022, the Company issued an unsecured promissory note to a member of key management personnel for $27,242 (USD$20,000). The promissory note is non-interest bearing and due on December 20, 2023. As the promissory note is non-interest bearing, the initial fair value was estimated at $23,086 (USD$16,949) using a market discount rate of 18%. The promissory note is amortized over the term using the effective interest rate method. As at December 31, 2022, the note remains outstanding and interest expense related to the promissory note recorded was $117. At initial recognition, a gain on the discount of the promissory note of $4,156 was recorded.

(Expressed in Canadian dollars)

9. PROMISSORY NOTE (Continued)

The following table summarizes the continuity of the liability component of the Company's promissory note:

		Promissory note
Balance at December 31, 2021	**$**	**-**
Proceeds from issuance of promissory notes		27,242
Discount of promissory notes		(4,156)
Foreign exchange loss		(131)
Interest expense		117
Balance at December 31, 2022	**$**	**23,072**

10. CONVERTIBLE NOTE

On November 16, 2022, the Company issued an unsecured convertible note to a member of key management personnel for $20,000. The convertible note bears interest at 10% per annum and is due on May 16, 2024. At any time after issuance, the holder is entitled to convert, at their sole discretion, all or a portion of the principal amount into common shares of the Company at a deemed price of $0.05 per common share. The convertible note includes both a liability component for the contractual cash flows and an equity component for the conversion feature. The liability component was valued first based on the present value of contractual cash flows using a discount rate of 18% which is the estimated rate that would have been charged for a similar instrument without a conversion feature. The equity component of $2,102 was measured based on the residual value of the compound instrument as a whole after deducting the amount determined separately for the liability component.

The following table summarizes the continuity of the liability component of the Company's convertible note issued on November 16, 2022:

		Convertible note
Balance at December 31, 2021	**$**	**-**
Proceeds from issuance of convertible note		20,000
Amount allocated to conversion feature – equity		(2,102)
Interest expense		165
Balance at December 31, 2022	**$**	**18,063**

11. SHARE CAPITAL

Authorized share capital
Unlimited number of common shares without par value.
Unlimited number of preferred shares without par value.

Common shares
During the year ended December 31, 2022:

There was no share capital activity during the year ended December 31, 2022.

During the year ended December 31, 2021:

There was no share capital activity during the year ended December 31, 2021.

(Expressed in Canadian dollars)

12. RESERVES

Stock option plan

The Directors of the Company adopted a stock option plan on April 10, 2018 (the "Plan"). The Plan provides that, subject to the requirements of the Canadian Securities Exchange, the aggregate number of securities reserved for issuance will be 10% of the number of the Company's Common Shares issued and outstanding at the time such options are granted. The Plan provides that the number of Common Shares that may be reserved for issuance to any one individual upon exercise of all stock options held by such individual may not exceed 5% of the issued Common Shares, if the individual is a director, officer, employee or consultant, or 1% of the issued Common Shares, if the individual is engaged in providing investor relations services, on a yearly basis. All options granted under the Plan will expire not later than the date that is ten years from the date that such options are granted. Options terminate earlier as follows: (i) immediately in the event of dismissal with cause; (ii) 90 days from date of termination other than for cause; or (iii) one year from the date of death or disability.

Stock options

A summary of stock option activity is as follows:

	Options	Weighted average exercise price	
Outstanding, December 31, 2020	1,925,000	$	0.39
Expired	(550,000)		0.38
Outstanding and exercisable, December 31, 2021	1,375,000	$	0.40
Expired	(1,375,000)		0.40
Outstanding and exercisable, December 31, 2022	**-**	**$**	**-**

At December 31, 2022, there were no stock options outstanding. At December 31, 2021, the weighted-average remaining contractual life of options outstanding is 0.34 years.

Warrants

A summary of warrant activity is as follows:

	Warrants	Weighted average exercise price	
Outstanding, December 31, 2020	2,872,800	$	0.60
Expired	(2,872,800)		0.60
Outstanding and exercisable, December 31, 2021 and 2022	-	$	-

13. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, the sub-licensing and sales of cannabis products that utilize Invisicare®, a patented polymer-based technology for topical and transdermal skin care products. As the operations comprise a single reporting segment, amounts disclosed in the financial statements also represent segment amounts.

The operating segment of the Company is defined as a component of the Company for which separate financial information is available and is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer.

The Company has one group of similar products due to having a similar underlying technology, class of customers, and economic characteristics.

(Expressed in Canadian dollars)

13. SEGMENTED INFORMATION (Continued)

Revenue

During the year ended December 31,		**2022**		**2021**
Canada	$	1,209	$	43,123
United States		136,945		146,647
Mexico		-		35,179
	$	138,154	$	224,949

Total Long-Lived Assets

As at December 31,		**2022**		**2021**
United States	$	5,504	$	11,709

During the year ended December 31, 2022, one customer individually accounted for 93% (2021 – 60%) of the Company's total revenue and is located in the United States.

14. RELATED PARTY TRANSANCTIONS

Key management compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel is as follows:

Year ended December 31,		**2022**		**2021**
Management fees	$	359,776	$	348,725
Director fees		8,000		8,000
	$	367,776	$	356,725

Related party transactions and balances

As at December 31, 2022, accounts payable and other liabilities consists of $100,498 (2021 - $8,200) in directors fees, royalties, consulting fees, expense reimbursements, accrued interest and rent expense owed to related parties. These amounts are non-interest bearing, unsecured and due on demand.

As at December 31, 2022, trade and other receivables includes $209 (2021 - $209) owing from a director of the Company. This amount is non-interest bearing, unsecured and due on demand.

During the year ended December 31, 2022, the Company incurred $12,000 (2021 - $12,000) in consulting fees to a Company owned by the CFO's spouse. As at December 31, 2022, the Company owed $3,150 (2021 - $1,050) to this related party.

During the year ended December 31, 2022, the Company incurred $25,100 (2021 - $24,000) in rent expenses to a Company controlled by a director and CFO of the Company. As at December 31, 2022, the Company owed $3,150 (2021 - $3,150) to this related party.

14. RELATED PARTY TRANSANCTIONS (Continued)

During the year ended December 31, 2022, the Company incurred $19,031 (2021 - $ nil) in rent expenses and $37 (2021 - $3,224) in royalties to a Company with a common CEO and director. As at December 31, 2022, the Company owed $19,060 (2021 - $ nil) to this related party.

On November 16, 2022, the Company issued an unsecured convertible note to the Chief Operating Officer ("COO") and director for $20,000 (Note 10). The convertible note bears interest at 10% per annum and is due on May 16, 2024. At any time after issuance, the holder is entitled to convert, at their sole discretion, all or a portion of the principal amount into common shares of the Company at a deemed price of $0.05 per common share. During the year ended December 31, 2022, the Company recorded $247 in interest expense in relation to the convertible note. At December 31, 2022, the Company owed $18,063 for the convertible note and $247 for accrued interest to the COO and director.

On December 20, 2022, the Company issued an unsecured promissory note to the COO and director for $27,242 (USD$20,000) (Note 9). The promissory note is non-interest bearing and due on December 20, 2023. During the year ended December 31, 2022, the Company recorded $117 in interest expense and a gain on discount of promissory note of $4,156 in relation to the promissory note. At December 31, 2022, the Company owed $23,073 to the COO and director for the promissory note.

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue its operations 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 promissory notes, convertible notes and shareholders' equity.

The Company's primary source of capital is through the issuance of convertible notes and 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.

16. FINANCIAL INSTRUMENTS

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include interest rate risk, credit risk, liquidity risk, and currency risk and price risk.

a) Interest rate risk: 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. As at December 31, 2022, the Company is not exposed to any significant interest rate risk.

b) Credit risk: Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk exposure is primarily related to its liquid financial assets including cash and accounts receivable. The Company limits exposure to credit risk on liquid financial assets by maintaining its cash with high credit-quality financial institutions and by actively managing and monitoring its receivables. The Company's cash is held with a major Canadian-based financial institution. Receivables consist of trade receivables from customers and goods and services tax due from the government of Canada. The Company actively monitors defaults of customers and incorporates this information into its credit risk controls. At December 31, 2022, $53,241 is due from one customer of which $32,293 is past due and not provided for.

16. FINANCIAL INSTRUMENTS (Continued)

c) Liquidity risk: Liquidity risk arises from the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company addresses its liquidity through equity financing obtained through the sale of common shares and through loans from related parties. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. As at December 31, 2022, the Company had cash of $28,901 to settle current liabilities of $169,775.

d) Currency risk: Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2022, the Company has cash of CAD$4,549, receivables of CAD$53,241 and accounts payable and accrued liabilities of CAD$85,086 which are denominated in United States dollars. Based on current exposures as at December 31, 2022 and assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the United States dollar would result in an gain or loss of approximately CAD$1,365 in the Company's statements of loss and comprehensive loss.

Fair value: Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The carrying value of Company's financial assets and liabilities as at December 31, 2022 approximate their fair value due to their short-term nature.

17. INCOME TAXES

Years ended December 31,		**2022**		**2021**
Net loss for the year	$	(794,052)	$	(2,393,777)
Statutory income tax rate		27%		27%
Income tax benefit computed at the statutory tax rate		(214,000)		(646,000)
Non-deductible expenditures		1,000		1,000
Impact of different foreign statutory tax rates		2,000		29,000
Unrecognized benefit from income tax losses		211,000		616,000
Income tax recovery	$	-	$	-

As at December 31, 2022, the Company has non-capital tax loss carry forwards in Canada of $3,927,207 which can be applied to reduce future Canadian taxable income and will expire on between 2037 and 2042. In addition, the Company had net operating tax loss carry forwards in the United Sates of $821,243 which can be applied to reduce future US taxable income which will have an unlimited expiry period.

18. SUBSEQUENT EVENTS

On February 2, 2023, the Company issued an unsecured convertible note to a member of key management personnel for USD$10,000. USD$5,000 of the proceeds were received on February 2, 2023 and the remaining USD$5,000 of proceeds were received on February 16, 2023. The convertible note bears interest at 10% per annum and is due on August 2, 2024. At any time after issuance, the holder is entitled to convert, at their sole discretion, all or a portion of the principal amount into common shares of the Company at a deemed price of $0.05 per common share. As the note is issued in a currency different from the currency of the conversion feature, the conversion feature is treated as a derivative liability and recorded at fair value. The value of the derivative liability was calculated first, with the remaining face value of the loan attributed to the debt host component.

On February 23, 2023, the Company issued an unsecured convertible note to a member of key management personnel for USD$13,000. The convertible note bears interest at 10% per annum and is due on August 23, 2024. At any time after issuance, the holder is entitled to convert, at their sole discretion, all or a portion of the principal amount into common shares of the Company at a deemed price of $0.05 per common share. As the note is issued in a currency different from the currency of the conversion feature, the conversion feature is treated as a derivative liability and recorded at fair value. The value of the derivative liability was calculated first, with the remaining face value of the loan attributed to the debt host component.

On March 6, 2023, the Company issued an unsecured convertible note to a Company controlled by a member of key management personnel for $14,000. The convertible note bears interest at 10% per annum and is due on March 6, 2024. At any time after issuance, the holder is entitled to convert, at their sole discretion, all or a portion of the principal amount into common shares of the Company at a deemed price of $0.05 per common share. The convertible note includes both a liability component for the contractual cash flows and an equity component for the conversion feature.