
PHARMATHER HOLDINGS LTD.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022
(EXPRESSED IN CANADIAN DOLLARS)



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
PharmaTher Holdings Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of PharmaTher Holdings Ltd. (the Company), which comprise the consolidated statements of financial position as at May 31, 2023 and 2022, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2023 and 2022, 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 Consolidated 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 consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of \$6,416,319 during the year ended May 31, 2023. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, 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.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the annual management's discussion and analysis, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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.

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

Clearhouse LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
September 28, 2023

PharmaTher Holdings Ltd.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at May 31, 2023	As at May 31, 2022
ASSETS		
Current assets		
Cash	\$ 5,919,808	\$ 9,154,906
Amounts receivable	55,859	30,164
Prepaid expense	-	10,000
Investment (note 4)	333,333	2,966,667
Total current assets	6,309,000	12,161,737
Non-current assets		
Equipment, net	711	2,133
Total assets	\$ 6,309,711	\$ 12,163,870
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 11(a))	\$ 889,757	\$ 327,778
Due to related party (note 11(a)(vi))	2,721	2,540
Total liabilities	892,478	330,318
Equity		
Share capital (note 5)	8,442,315	8,442,315
Warrants and broker warrants (note 6)	4,113,811	4,114,398
Contributed surplus (note 7)	645,999	645,999
Deficit	(7,784,892)	(1,369,160)
Total equity	5,417,233	11,833,552
Total liabilities and equity	\$ 6,309,711	\$ 12,163,870

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Business of the Company and going concern (note 1)

Commitments (note 12)

Subsequent event (note 16)

On Behalf of the Board:

"Fabio Chianelli"
Director

"Carlo Sansalone"
Director

PharmaTher Holdings Ltd.**Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)**

Years ended May 31,	2023	2022
Expenses		
Research (notes 11 and 13)	\$ 3,018,122	\$ 2,605,142
Professional fees	115,816	320,563
Consulting fees (note 11(a)(i))	477,046	490,260
Stock-based compensation (notes 7 and 11(b))	-	373,409
General and administrative	348,859	172,286
Shareholder information and filing fees	54,947	140,694
Comprehensive loss before below items	(4,014,790)	(4,102,354)
Unrealized loss on investment (note 4)	(2,633,334)	(133,333)
Interest income	206,820	-
Sub-licensing income	24,985	-
Comprehensive loss before income tax	\$ (6,416,319)	\$ (4,235,687)
Current income tax (recovery)	-	(39,551)
Deferred income tax (recovery)	-	(185,500)
Net loss and comprehensive loss for the year	\$ (6,416,319)	\$ (4,010,636)
Basic and diluted net loss for the year (note 10)	\$ (0.07)	\$ (0.05)
Weighted average number of common shares outstanding - basic and diluted	88,169,065	81,105,083

The accompanying notes to the consolidated financial statements are an integral part of these statements.

PharmaTher Holdings Ltd.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital		Warrants and broker warrants	Contributed Surplus	Retained earnings (Deficit)	Total
	Number of shares	Amount				
Balance, May 31, 2021	67,734,865	\$ 2,369,128	\$ 234,895	\$ 338,511	\$ 2,640,380	\$ 5,582,914
Shares issued from exercise of stock options	1,125,000	207,500	-	-	-	207,500
Fair value of stock options exercised	-	65,921	-	(65,921)	-	-
Private placement (note 5(b))	15,625,000	6,425,330	3,574,670	-	-	10,000,000
Issuance of broker warrants (note 5(b))	-	(539,139)	539,139	-	-	-
Share issuance costs (note 5(b))	-	(827,695)	-	-	-	(827,695)
Exercise of warrants	3,684,200	508,060	-	-	-	508,060
Reclassification of fair value of warrants exercised	-	233,210	(233,210)	-	-	-
Expiry of warrants	-	-	(1,096)	-	1,096	-
Stock based compensation (note 7)	-	-	-	373,409	-	373,409
Net loss for the year	-	-	-	-	(4,010,636)	(4,010,636)
Balance, May 31, 2022	88,169,065	\$ 8,442,315	\$ 4,114,398	\$ 645,999	\$ (1,369,160)	\$ 11,833,552
Expiry of warrants	-	-	(587)	-	587	-
Net loss for the year	-	-	-	-	(6,416,319)	(6,416,319)
Balance, May 31, 2023	88,169,065	\$ 8,442,315	\$ 4,113,811	\$ 645,999	\$ (7,784,892)	\$ 5,417,233

The accompanying notes to the consolidated financial statements are an integral part of these statements.

PharmaTher Holdings Ltd.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Years ended May 31,	2023	2022
Operating activities		
Net loss for the year	\$ (6,416,319)	\$ (4,010,636)
Adjustments for:		
Stock based compensation (note 7)	-	373,409
Foreign exchange loss	162	126
Deferred tax expenses (recovery)	-	(185,500)
Depreciation	1,422	1,777
Unrealized loss on investment (note 4)	2,633,334	133,333
Non-cash working capital items:		
Amounts receivable	(25,695)	(1,514)
Prepaid expenses	10,000	23,333
Accounts payable and accrued liabilities	561,998	194,183
Income tax payable	-	(39,551)
Net cash (used in) operating activities	(3,235,098)	(3,511,040)
Financing activities		
Proceeds from exercise of stock options	-	207,500
Proceeds from private placements, net of costs	-	9,172,305
Proceeds from exercise of warrants	-	508,060
Net cash provided by financing activities	-	9,887,865
Net change in cash	(3,235,098)	6,376,825
Cash, beginning of year	9,154,906	2,778,081
Cash, end of year	\$ 5,919,808	\$ 9,154,906

The accompanying notes to the consolidated financial statements are an integral part of these statements.

PharmaTher Holdings Ltd.
Notes to Consolidated Financial Statements
Years Ended May 31, 2023 and 2022
(Expressed in Canadian Dollars)

1. Business of the Company and going concern

PharmaTher Holdings Inc. ("PharmaTher" or the "Company") was incorporated under the Business Corporations Act (British Columbia). The registered head office of the Company is 82 Richmond Street East, Toronto, Ontario M5C 1P1.

PharmaTher is a specialty pharmaceutical company focused on developing and commercializing KETARX™ (racemic ketamine) delivered by intravenous and intramuscular injection, microneedle patch, and on-body pump for mental health, neurological and pain disorders.

On October 1, 2020, the Company's common shares were approved for listing on the Canadian Securities Exchange (the "CSE") and began trading on the CSE under the trading symbol "PHRM" as of market open on October 9, 2020.

On January 13, 2021, the common shares of the Company were approved for trading on the OTCQB® Venture Market ("OTCQB"). The Company's U.S. listing will trade under the symbol "PHRRF" while the Company's primary Canadian listing will continue to trade on the Canadian Securities Exchange under "PHRM".

These consolidated financial statements were prepared in a going concern basis of presentation, which assumes that the Company will continue operations for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities and commitments in the normal course of business. To date, the Company has not earned significant revenue and incurred comprehensive loss of \$6,416,319 during the year ended May 31, 2023.

The Company's ability to continue as a going concern is dependent upon raising additional capital to meet its present and future commitments. If additional financing is arranged through the issuance of shares, control of the Company may change and shareholders may suffer significant dilution. In addition, the Company has not generated any revenue to date. These circumstances indicate that material uncertainties exist that may cast significant doubt about the Company's ability to continue as a going concern and, accordingly, the ultimate use of accounting principles applicable to a going concern. The unaudited condensed interim consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments may be material.

PharmaTher Holdings Ltd.
Notes to Consolidated Financial Statements
Years Ended May 31, 2023 and 2022
(Expressed in Canadian Dollars)

2. Basis of Presentation

Statement of compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorized for issuance by the Board of Directors of the Company on September 28, 2023.

Basis of Measurement

These financial statements have been prepared on a going concern basis, under the historical cost convention except for certain financial assets and liabilities that are presented at fair value. These financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The functional currency of the Company is Canadian Dollar. The presentation currency of the financial statements is the Canadian Dollar.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, PharmaTher Inc. The financial statements of the Company's wholly owned subsidiary, PharmaTher Inc., are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investment in subsidiary is carried at their cost of acquisition in the Company's financial statements. The financial statements of subsidiary are prepared for the same reporting period as the parent entity, using consistent accounting policies.

All inter-company balances and transactions between entities in the Company, including any unrealized profits or losses, have been eliminated on consolidation.

PharmaTher Holdings Ltd.
Notes to Consolidated Financial Statements
Years Ended May 31, 2023 and 2022
(Expressed in Canadian Dollars)

3. Significant Accounting Policies

Use of Management Estimates, Judgments and Measurement Uncertainty

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below:

Stock-based compensation

The fair value of stock-based compensation expenses are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture of options granted.

Research and development costs

Judgment is required to distinguish the research phase and the development phase to correctly identify costs that qualify for capitalization.

Warrants

Management is required to make a number of estimates when measuring the value of the warrants including the volatility rate and expected life of the instruments.

Income taxes

The calculation of income taxes requires judgment in interpreting tax rules and regulations. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company's tax filings also are subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities. Management believes that it has sufficient amounts accrued for outstanding tax matters based on information that currently is available.

Management judgment is used to determine the amounts of deferred tax assets and liabilities and future tax liabilities to be recognized. In particular, judgment is required when assessing the timing of the reversal of temporary differences to which future income tax rates are applied.

Going concern

Management assessment of going concern and uncertainties of PharmaTher's ability to raise additional capital and/or obtain financing to meet its commitments.

PharmaTher Holdings Ltd.
Notes to Consolidated Financial Statements
Years Ended May 31, 2023 and 2022
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Income Taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive loss.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risk specific to the obligation.

Loss Per Share

Loss per common share have been determined by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period, excluding shares securing employee share purchase loans and shares in escrow, if any. The Company follows the "treasury stock" method in the calculation of diluted earnings per share. Under this method, the calculation of diluted earnings per share assumes that outstanding options and warrants that are dilutive to earnings per share are exercised and the proceeds are used to repurchase shares of the Company at the average market price of the shares for the period. The treasury stock method is not used to calculate diluted loss per share because the result would be anti-dilutive. Loss per share per share (diluted) are equivalent measures and calculated on a non-dilutive basis.

Revenue recognition

Revenue comprises sub-licensing income and interest income in the ordinary course of the Company's activities. Revenue is measured at the fair value of the sub-licensing payments and interest payments that are received or receivable.

The Company recognizes sub-licensing revenue when the Company has an unconditional right to payments under the sub-licensing agreement and collection of the revenue is probable. The Company recognizes interest income revenue when the interest income is received in the Company's bank accounts or when the interest income is receivable under terms of the interest bearing bank accounts.

PharmaTher Holdings Ltd.
Notes to Consolidated Financial Statements
Years Ended May 31, 2023 and 2022
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Financial Instruments

Recognition

The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value, and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectations of recovering the contractual cash flows on a financial asset.

Classification and Measurement

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- those to be measured subsequently at fair value, either through profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"); and,
- those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting date. All other financial assets are measured at their fair values at each subsequent reporting date, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial liabilities are classified and measured at either:

- amortized cost;
- FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or,
- FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified. The Company's financial assets consist of cash and investments which are classified and measured at FVTPL and accounts receivable which is classified and measured at amortized cost.

PharmaTher Holdings Ltd.
Notes to Consolidated Financial Statements
Years Ended May 31, 2023 and 2022
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Classification and Measurement (continued)

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost or FVTOCI are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at FVTPL are expensed in profit or loss.

The Company's financial liabilities consist of accounts payable and accrued liabilities and due to related party, which are classified and measured at amortized cost using the effective interest method.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit losses associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

Stock-based compensation

The fair value of stock options granted is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Stock option expense incorporates an expected forfeiture rate for those options that do not vest immediately. Amounts recorded for expired unexercised stock options and warrants are transferred to deficit on expiry.

Investment

Purchases and sales of investments are recognized on a trade date basis. Public and non-public investments at fair value through profit or loss are initially recognized at fair value, with changes in fair value reported in income (loss). At the end of each financial reporting period, the Company's management estimates the fair value of investment based on the quoted closing prices at the statement of financial position date or the closing price on the last day the security traded if there were no trades at the statement of financial position date and reflects such changes in valuations in the consolidated statements of income (loss) and comprehensive income (loss).

PharmaTher Holdings Ltd.
Notes to Consolidated Financial Statements
Years Ended May 31, 2023 and 2022
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Research and development

Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized as internally generated intangible assets if the Company can demonstrate each of the following criteria:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible assets and use or sell it;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Accounting pronouncements not yet adopted

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after June 1, 2022 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following has not yet been adopted and is being evaluated to determine their impact on the Company.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

4. Investment

During the year ended May 31, 2021, the Company received 6,666,667 shares of Revive Therapeutics Ltd. (“Revive”) valued at \$4,000,000 and cash of \$3,000,000 for sale of the full rights to PharmaTher’s intellectual property pertaining to psilocybin. As at May 31, 2023, the fair value of investment in Revive shares was \$333,333 (May 31, 2022 - \$2,966,667), resulting in an unrealized loss on investment of \$2,633,334 during the year ended May 31, 2023 (2022 - loss of \$133,333)

5. Share capital

a) Authorized share capital

Authorized unlimited common shares and unlimited number of preferred shares

b) Common shares issued

	Number of Common Shares	Amount (\$)
Balance, May 31, 2021	67,734,865	2,369,128
Private placement (i)	15,625,000	6,425,330
Share issuance costs (i)	-	(827,695)
Issuance of broker warrants (i)	-	(539,139)
Exercise of warrants	3,684,200	508,060
Reclassification of fair value of warrants exercised	-	233,210
Shares issued from exercise of stock options	1,125,000	207,500
Reclassification of fair value of stock options exercised	-	65,921
Balance, May 31, 2022 and May 31, 2023	88,169,065	8,442,315

PharmaTher Holdings Ltd.
Notes to Consolidated Financial Statements
Years Ended May 31, 2023 and 2022
(Expressed in Canadian Dollars)

5. Share capital (continued)

b) Common shares issued (continued)

(i) On September 28, 2021, the Company closed its previously announced private placement with institutional investors of its common shares ("Common Shares") and warrants to purchase common shares ("Warrants") for gross proceeds of \$10 million (the "Private Placement"). Pursuant to the Private Placement, the Company issued 15,625,000 Common Shares and Warrants to purchase 15,625,000 Common Shares at a purchase price of \$0.64 per Common Share and associated Warrant. Each Warrant entitles the holder to purchase one Common Share at an exercise price of \$0.80 per Common Share for a period of five years following the closing date of the Private Placement. The fair value of the warrants was estimated at \$3,574,670 using the Black-Scholes stock option valuation model using the following assumptions: stock price of \$0.61, risk-free interest rate of 1.09%, expected stock price volatility of 100%, expected dividend yield of 0% and expected life of 5 years. In connection with the Private Placement, the Company issued 1,250,000 broker warrants. Each Warrant entitles the holder to purchase one Common Share at an exercise price of \$0.80 per Common Share for a period of five years following the closing date of the Private Placement. The Company incurred share issuance costs of \$827,695 which was allocated to share capital.

6. Warrants and broker warrants

The Company issued warrants and broker warrants to acquire common shares as follows:

	Number of Warrants	Weighted Average Exercise Price (\$)
Balance, May 31, 2021	3,802,200	0.14
Issued (note 5(b)(i))	16,875,000	0.80
Exercised	(3,684,200)	0.14
Expired	(85,000)	0.10
Balance, May 31, 2022	16,908,000	0.80
Expired	(33,000)	0.10
Balance, May 31, 2023	16,875,000	0.80

The following table reflects the warrants and broker warrants issued and outstanding as of May 31, 2023:

Expiry Date	Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)	Number of Warrants Outstanding
September 28, 2026	0.80	3.33	15,625,000
September 28, 2026	0.80	3.33	1,250,000
	0.80	3.33	16,875,000

PharmaTher Holdings Ltd.
Notes to Consolidated Financial Statements
Years Ended May 31, 2023 and 2022
(Expressed in Canadian Dollars)

7. Stock options

The Company issued stock options to acquire common shares as follows:

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, May 31, 2021	4,874,000	0.12
Granted	2,250,000	0.25
Exercised	(1,125,000)	0.11
Cancelled	(300,000)	0.10
Balance, May 31, 2022 and May 31, 2023	5,699,000	0.16

The following table reflects the actual stock options issued and outstanding as of May 31, 2023:

Expiry Date	Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Vested (Exercisable)
July 16, 2025	0.10	2.13	3,449,000	3,449,000
September 10, 2026	0.91	3.28	250,000	250,000
March 30, 2027	0.18	3.83	1,000,000	1,000,000
April 4, 2027	0.16	3.85	500,000	500,000
April 18, 2027	0.15	3.88	500,000	500,000
	0.16	2.78	5,699,000	5,699,000

On September 10, 2021, the Company granted 250,000 stock options to a consultant with each stock option exercisable for one common share of the Company at an exercise price of \$0.91 per share. These stock options expire in five years from the date of grant and vested immediately upon grant. The fair value of these stock options was estimated at \$168,779 using Black-Scholes stock option valuation model using the following assumptions: stock price of \$0.91, risk-free interest rate of 0.83%, expected stock price volatility of 100%, expected dividend yield of 0% and expected life of 5 years. The Company recorded stock-based compensation of \$nil (2022 - \$168,779) in the consolidated statements of loss and comprehensive loss.

On March 30, 2022, the Company granted 1,000,000 stock options to a consultant with each stock option exercisable for one common share of the Company at an exercise price of \$0.18 per share. These stock options expire in five years from the date of grant and vested immediately upon grant. The fair value of these stock options was estimated at \$96,388 using Black-Scholes stock option valuation model using the following assumptions: stock price of \$0.14, risk-free interest rate of 2.42%, expected stock price volatility of 100%, expected dividend yield of 0% and expected life of 5 years. The Company recorded stock-based compensation of \$nil (2022 - \$96,388) in the consolidated statements of loss and comprehensive loss.

On April 4, 2022, the Company granted 500,000 stock options to a consultant with each stock option exercisable for one common share of the Company at an exercise price of \$0.155 per share. These stock options expire in five years from the date of grant and vested immediately upon grant. The fair value of these stock options was estimated at \$58,299 using Black-Scholes stock option valuation model using the following assumptions: stock price of \$0.16, risk-free interest rate of 2.44%, expected stock price volatility of 100%, expected dividend yield of 0% and expected life of 5 years. The Company recorded stock-based compensation of \$nil (2022 - \$58,299) in the consolidated statements of loss and comprehensive loss.

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7. Stock options (continued)

On April 18, 2022, the Company granted 500,000 stock options to a consultant with each stock option exercisable for one common share of the Company at an exercise price of \$0.15 per share. These stock options expire in five years from the date of grant and vested immediately upon grant. The fair value of these stock options was estimated at \$49,942 using Black-Scholes stock option valuation model using the following assumptions: stock price of \$0.14, risk-free interest rate of 2.63%, expected stock price volatility of 100%, expected dividend yield of 0% and expected life of 5 years. The Company recorded stock-based compensation of \$nil (2022 - \$49,942) in the consolidated statements of loss and comprehensive loss.

8. Capital management

The Company considers its capital to be its shareholders' equity. As at May 31, 2023, the Company had shareholders' equity of \$5,417,233. The Company's objective when managing its capital is to seek continuous improvement in the return to its shareholders while maintaining a moderate to high tolerance for risk. The objective is achieved by prudently managing the capital generated through internal growth and profitability, through the use of lower cost capital, including raising share capital or debt when required to fund opportunities as they arise. The Company may also return capital to shareholders through the repurchase of shares, pay dividends or reduce debt where it determines any of these to be an effective method of achieving the above objective. The Company does not use ratios in the management of its capital. There have been no changes to management's approach to managing its capital during the year ended May 31, 2023.

9. Fair value and financial risk factors

Risk Management

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

Fair Values

The Company has designated its cash and investment as FVTPL which are measured at fair value. Fair value of cash is determined based on transaction value and is categorized as a Level One measurement.

- Level One - includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level Two - includes inputs that are observable other than quoted prices included in Level One.
- Level Three - includes inputs that are not based on observable market data.

As at May 31, 2023, the carrying and fair value amounts of the Company's cash are approximately equivalent due to its short term nature. Cash and investments are classified as Level One in the fair value hierarchy as at May 31, 2023.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. As at May 31, 2023, management believes that the credit risk with respect to cash and HST receivable is minimal.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying its financial obligations. The Company manages its liquidity risk by forecasting its operations and anticipating its operating and investing activities.

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9. Fair value and financial risk factors (continued)

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market risk factors. The market risk factor that affects the Company is foreign currency risk.

The Company is exposed to market risk in trading its investment. As at May 31, 2023, a 10% increase (decrease) on the fair value of the investment will result in a corresponding increase (decrease) of approximately \$33,333 in the Company's net loss and comprehensive loss for year ended May 31, 2023.

Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk to the extent that the cash, if any, maintained at financial institutions is subject to a floating rate of interest. The interest rate risk on cash is not considered significant. The Company's sensitivity analysis suggests that a 10% increase or decrease of the interest rate would have resulted in an approximately \$592,000 decrease or increase in the Company's total comprehensive loss.

Currency risk

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company is exposed to currency risk through financial assets and liabilities denominated in currencies other than the Canadian dollar, the Company's presentation currency. The Company's financial instruments denominated in currencies that are not the Canadian dollar as at May 31, 2023 are as follows:

	US dollar	C\$Equivalent
Cash	\$ 221,443	\$ 301,229
Accounts payable and accrued liabilities	623,738	848,471
Due to related party	2,000	2,721

The Company's sensitivity analysis suggests that a 10% depreciation or appreciation of the foreign currencies against the Canadian dollar would have resulted in an approximate \$115,000 decrease or increase in the Company's total comprehensive loss.

As at May 31, 2023, US dollar amounts have been translated at a rate of C\$1.3603 per US dollar.

10. Net loss per share

The calculation of basic loss per share for the year ended May 31, 2023 was based on the loss attributable to common shareholders of \$6,416,319 (2022 - loss of \$4,010,636) and the basic weighted average number of common shares outstanding of 88,169,065 (2022 - 81,105,083). Diluted loss per share for the year ended May 31, 2023 did not include the effect of 16,875,000 warrants and broker warrants (2022 - 16,908,000) and 5,699,000 options (2022 - 5,699,000) as they are anti-dilutive.

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11. Related party transactions

(a) Related party balances and transactions

Related parties include the directors of the Company, close family members and enterprises which are controlled by these individuals as well as persons performing similar functions.

Years ended May 31,	2023	2022
Fabiotech Inc. (i)	\$ 320,000	\$ 250,000
Marrelli Support Services Inc. ("MSSI") (ii)	\$ 51,569	\$ 44,400
DSA Corporate Services Inc. ("DSA") (iii)	\$ 40,306	\$ 56,489
Larnic Inc. (iv)	\$ 220,000	\$ 237,500
Marrelli Trust Company Limited ("Marrelli Trust") (v)	\$ 6,875	\$ 5,521

(i) Fees are related to services of Fabio Chianelli to act as the Chief Executive Officer ("CEO") of the Company. Fabio Chianelli is the owner of Fabiotech Inc. As at May 31, 2023, \$nil (May 31, 2022 - \$nil) was owed to the CEO.

(ii) Fees are related to services of Carmelo Marrelli to act as the Chief Financial Officer ("CFO") of the Company. Carmelo Marrelli is the Managing Director of MSSI. Services were incurred for bookkeeping, accounting and CFO services. As at May 31, 2023, MSSI was owed \$2,522 (May 31, 2022 - \$1,463) and this amount was included in accounts payable and accrued liabilities. This amount is unsecured and non-interest bearing.

(iii) The CFO of the Company is an officer of DSA and the Corporate Secretary of the Company is an employee of DSA. Fees are related to corporate secretarial and filing services provided by DSA. As at May 31, 2023, DSA was owed \$2,260 (May 31, 2022 - \$3,277) and this amount was included in accounts payable and accrued liabilities. This amount is unsecured and non-interest bearing.

(iv) During the year ended May 31, 2023, the Company incurred consulting fees of \$220,000 (2022 - \$237,500) to a company controlled by the spouse of the CEO and the consulting fees have been included in research expenses, which services supported aspects of the product and clinical development, regulatory and market research of the Company's product pipeline. As at May 31, 2023, the company controlled by the spouse of the CEO was owed \$nil (May 31, 2022 - \$nil).

(v) The CFO of the Company is a director of Marrelli Trust. Marrelli Trust provided stock transfer services to the Company. As at May 31, 2023, Marrelli Trust was owed \$1,085 (May 31, 2022 - \$nil) and this amount was included in accounts payable and accrued liabilities. This amount is unsecured and non-interest bearing.

(vi) During the year ended May 31, 2021, one of the officers of the Company paid research and development expenses in the amount of \$2,608 on behalf of the Company. As at May 31, 2023, the Company owed \$2,721 (May 31, 2022 - \$2,540) to the officer.

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11. Related party transactions (continued)

(b) Remuneration of directors and key management

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. During the year ended May 31, 2023 and 2022, the Company incurred no remuneration of management with the exception of the consulting fees paid to the CEO and CFO as outlined above.

(c) Major shareholders

To the knowledge of the directors and senior officers of the Company, as at May 31, 2023, no person or corporation beneficially owns or exercises control over common shares of the Company carrying more than 10% of the voting rights attached to all common shares of the Company other than Mr. Fabio Chianelli who owns 17.54% of the Company. The holding can change at any time at the discretion of the owners.

None of the Company's major shareholders have different voting rights compared to holders of the Company's common shares.

The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change in control of the Company. To the knowledge of the Company, it is not directly or indirectly owned or controlled by another corporation, by any government or by any natural or legal person severally or jointly.

12. Commitments

The Company has entered into an exclusive patent license agreement with the Arizona Board of Regents on behalf of the University of Arizona, whereby certain milestone payments and royalties are payable upon the achievement of certain events. The Company will record these amounts as the events occur.

The Company has entered into an exclusive patent and know-how license agreement with The Queen's University of Belfast, whereby certain milestone payments and royalties are payable upon the achievement of certain events. The Company will record these amounts as the events occur.

The Company has entered into an exclusive license agreement with BioRae, Inc., whereby certain milestone payments and royalties are payable upon the achievement of certain events. The Company will record these amounts as the events occur.

The Company has entered into an exclusive license agreement with The University of Kansas, whereby certain milestone payments and royalties are payable upon the achievement of certain events. The Company will record these amounts as the events occur.

The Company has entered into a license agreement with Gesval SA on behalf of the University of Liege, whereby certain milestone payments and royalties are payable upon the achievement of certain events. The Company will record these amounts as the events occur.

The Company has entered into an evaluation and exclusive option agreement (the "Agreement") with Case Western Reserve University ("CWRU") in the development and commercialization for the intellectual property of ketamine in the treatment Rett Syndrome, a rare genetic neurological disorder. Consistent with industry standards, PharmaTher paid a one-time fee for entering into the Agreement, and should the Company elect to exercise its option, both the Company and CWRU will negotiate a license agreement.

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13. Research

Ketamine

PharmaTher has entered into an exclusive license agreement with the University of Arizona for the development and commercialization of ketamine in the treatment of Parkinson's disease and the Company is developing a novel injectable and intravenous ketamine product. During the year ended May 31 2023, the Company incurred \$65,687 (2022 - \$769,454) in the research of Ketamine for the treatment of Parkinson's disease and its novel injectable and intravenous ketamine product.

Microneedle

PharmaTher entered into an exclusive worldwide patent and know-how license agreement with The Queen's University of Belfast to develop and commercialize a patented hydrogel-forming microneedle patch delivery technology. During the year ended May 31, 2023, the Company incurred \$848,972 (2022 - \$945,653) in the research of Microneedle patch.

Other

During the year ended May 31, 2023, the Company incurred \$2,103,464 (2022 - \$890,035) on expenses related to research including research advisory, drug repurposing, pre-clinical and regulatory expenditures.

14. Income Taxes

The Company's provision for income taxes differs from the amounts computed by applying the basic current rate of 26.5% for Ontario and 27% for British Columbia to the income (loss) for the year before taxes as shown in the following table at May 31:

Years ended May 31,	2023	2022
(Loss) income before recovery of income taxes	\$ (6,416,319)	\$ (4,235,687)
Combined statutory income tax rate:	26.5%	26.5%
Expected income tax expense (recovery) based on statutory rates	(1,700,659)	(1,122,709)
Adjustment resulting from:		
Permanent differences	-	98,953
Non-deductible expenses	1,308	1,529
Share issuance costs	(8,605)	(8,605)
Temporary differences	195,920	(12,822)
Prior year losses utilized in current year	-	-
Deferred tax assets not recognized	1,512,036	818,603
Income tax expense	\$ -	\$ (225,051)

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14. Income Taxes (continued)

Deferred income taxes

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying values of assets and liabilities. The temporary differences and unused tax losses that give rise to deferred income tax assets are presented below:

	As at May 31, 2023	As at May 31, 2022
Share issuance costs	\$ 14,333	\$ 22,938
Non-capital losses carried forward	2,064,657	1,054,928
Capital assets	605	228
Investments	342,331	(168,204)
Deferred tax (liability) assets	2,421,926	909,890
Less: deferred tax assets not recognized	(2,421,926)	(909,890)
Net deferred tax (liability) assets	\$ -	\$ -

Certain deferred tax assets have not been recognized because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The Company's non-capital income tax losses will expire as follows: 2043 - \$7,785,467.

15. Contingent asset

During the year ended May 31, 2023, the Company signed a settlement agreement with Relevium Technologies Inc. ("Relevium") relating to a lawsuit commenced by the Company against Relevium for breach of contract regarding a take-over transaction. Per the agreement, Relevium is to issue shares to the Company for a value of \$225,000 once Relevium's Cease Trade Order with TSX Venture Exchange is lifted.

16. Subsequent event

PharmaTher Inc. the wholly-owned subsidiary of PharmaTher Holdings Ltd, entered into a unanimous shareholders agreement pursuant to which PharmaTher Inc. will subscribe for 144,117,647 common shares of PharmaDrug Inc. ("PharmaDrug")'s subsidiary Sairiyo Therapeutics Inc. ("Sairiyo") for \$300,000. PharmaTher Inc. is a 49% shareholder of Sairiyo. In the event that PharmaDrug elects not to participate in any new issuance, PharmaTher Inc. may increase its ownership from 49% to 51% with an investment of \$250,000. Either side may increase its ownership by 10% for additional \$100,000 investments. Neither side may be diluted beyond a 10% carried interest. The Company is diversifying its product portfolio with its stake in Sairiyo Therapeutics Inc., whose sole asset is a patented reformulated version of the drug Cepharanthine as a potential treatment for medical countermeasures and cancer.