Defence Therapeutics Inc.

Condensed Interim Financial Statements

Six Months Ended December 31, 2022

(Unaudited – Expressed in Canadian Dollars)

Defence Therapeutics Inc.

Six Months Ended December 31, 2022

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Condensed Interim Financial Statements

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

February 24, 2023

Defence Therapeutics Inc.
Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars)

	December 31, 2022	June 30, 2022
	(unaudited)	
Assets		
Current		
Cash	$ 162,430	$ 506,696
Sales tax receivable	73,537	27,756
Prepaids	116,535	139,196
	352,502	673,648
Non-current		
Equipment (note 7)	54,693	-
Intangible assets (note 8)	39,346	46,018
	94,039	46,018
	$ 446,541	$ 719,666
Liabilities		
Current		
Accounts payable and accrued liabilities (note 10)	$ 826,029	$ 1,107,224
Non-current		
Convertible debentures – non-current portion (note 9)	1,722,292	-
	2,548,321	1,107,224
Shareholders' Deficiency		
Share Capital (note 11)	10,702,212	9,333,954
Share-based Payments Reserve (note 11)	1,153,160	794,153
Equity Component of Convertible Debentures (note 9)	214,521	-
Deficit	(14,171,673)	(10,515,665)
	(2,101,780)	(387,558)
	$ 446,541	$ 719,666

Going Concern (note 2)
Commitments (note 13)
Subsequent Events (note 14)

Approved on behalf of the Board of Directors:

"Sébastien Plouffe" .... Director
Sébastien Plouffe

"Raimar Löbenberg" .... Director
Raimar Löbenberg

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

Defence Therapeutics Inc.
Condensed Interim Statements of Comprehensive Loss
(Unaudited – Expressed in Canadian Dollars)

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Expenses				
Accounting and legal	$ 32,020	$ 39,190	$ 50,640	$ 50,220
Advertising and promotion	255,057	654,784	359,146	1,526,848
Consulting fees (note 10)	47,581	34,230	75,872	60,981
Depreciation of equipment	6,077	-	6,077	-
Depreciation of intellectual property	6,672	-	6,672	-
Foreign exchange loss	23,890	-	63,353	-
Interest accretion	51,038	-	51,038	-
Management fees (note 10)	40,500	42,745	81,000	77,241
Office and general	24,710	23,284	32,813	39,209
Research and lab fees (note 10)	1,244,741	872,150	2,697,559	1,402,534
Share-based compensation (notes 10 and 11)	227,857	248,503	231,996	283,351
Transfer agent and filings fees	27,872	26,167	34,690	30,667
Net Loss and Comprehensive Loss for the Period	$ (1,988,015)	$ (1,941,053)	$ (3,690,856)	$ (3,471,051)
Basic and Diluted Loss Per Share	$ (0.05)	$ (0.05)	$ (0.10)	$ (0.10)
Weighted Average Number of Common Shares Outstanding – Basic and Diluted	37,709,217	35,991,391	37,342,970	35,744,761

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

Defence Therapeutics Inc.
Condensed Interim Statements of Changes in Equity (Deficiency)
(Unaudited – Expressed in Canadian Dollars)

	Share Capital					
	Number of Common Shares	**Share Capital**	**Share-based Payments Reserve**	**Equity Component of Convertible Debentures**	**Deficit**	**Total**
Balance, June 30, 2021	**35,220,774**	**$ 7,971,160**	**$ 1,048,435**	**$ -**	**$ (3,532,610)**	**$ 5,486,985**
Shares issued on exercise of warrants	832,700	619,715	-	-	-	619,715
Fair value transferred on exercise of warrants	-	96,032	(96,032)	-	-	-
Share-based compensation	-	-	283,351	-	-	283,351
Net loss and comprehensive loss for the period	-	-	-	-	(3,471,051)	(3,471,051)
Balance, December 31, 2021	**36,053,474**	**8,686,907**	**1,235,754**	**-**	**(7,003,661)**	**2,919,000**
Shares issued on exercise of warrants	579,700	478,470	-	-	-	478,470
Fair value transferred on exercise of warrants	-	168,577	(168,577)	-	-	-
Fair value transferred on expiry of stock options	-	-	(360,943)	-	360,943	-
Share-based compensation	-	-	87,919	-	-	87,919
Net loss and comprehensive loss for the period	-	-	-	-	(3,872,947)	(3,872,947)
Balance, June 30, 2022	**36,633,174**	**9,333,954**	**794,153**	**-**	**(10,515,665)**	**(387,558)**
Shares issued on exercise of warrants	1,216,000	1,314,275	-	-	-	1,314,275
Share issuance costs	-	(86,904)	31,310	-	-	(55,594)
Fair value transferred on exercise of warrants	-	140,887	(140,887)	-	-	-
Fair value transferred on expiry of stock options	-	-	(34,848)	-	34,848	-
Share-based compensation	-	-	231,996	-	-	231,996
Issuance of convertible debentures	-	-	271,436	214,521	-	485,957
Net loss and comprehensive loss for the period	-	-	-	-	(3,690,856)	(3,690,856)
Balance, December 31, 2022	**37,849,174**	**$ 10,702,212**	**$ 1,153,160**	**$ 214,521**	**$ (14,171,673)**	**$ (2,101,780)**

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

Defence Therapeutics Inc.
Condensed Interim Statements of Cash Flows
For the Six Months Ended December 31,
(Unaudited – Expressed in Canadian Dollars)

		2022		**2021**
Operating Activities				
Net loss for the period	$	(3,690,856)	$	(3,471,051)
Items not involving cash				
Depreciation of equipment		6,672		-
Depreciation of intellectual property		6,077		-
Interest accretion		51,038		-
Share-based compensation		231,996		283,351
Changes in non-cash working capital				
Sales tax receivable		(45,781)		49,002
Prepaids		22,661		(248,471)
Accounts payable and accrued liabilities		(281,195)		161,823
Cash Used in Operating Activities		(3,699,388)		(3,225,346)
Investing Activity				
Purchase of equipment		(60,770)		-
Cash Used in Investing Activity		(60,770)		-
Financing Activities				
Shares issued for cash		1,314,275		619,715
Share issuance costs		(55,594)		-
Proceeds from convertible debenture issuance		2,355,000		-
Transaction costs		(197,789)		-
Cash Provided by Financing Activities		3,415,892		619,715
Outflow of Cash		(344,266)		(2,605,631)
Cash, Beginning of Period		506,696		5,452,906
Cash, End of Period	$	162,430	$	2,847,275
Supplemental Disclosure with Respect to Cash Flows				
Income tax paid	$	-	$	-
Interest paid	$	-	$	-
Equity component of convertible debenture issuance	$	214,521	$	-
Warrant component of convertible debenture issuance	$	271,436	$	-
Fair value transferred on exercise of warrants	$	140,887	$	96,032
Fair value transferred on expiry of stock options	$	34,848	$	-
Fair value of finder's warrants issued	$	31,310	$	-

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

1. NATURE OF OPERATIONS

Defence Therapeutics Inc. (the "Company") was incorporated as Accum Therapeutics Inc. on July 18, 2017, under the laws of the province of Québec. The Company changed its name to Defence Therapeutics Inc. on March 26, 2020 and was continued into British Columbia on July 10, 2020. Its principal business activity is the development of a biological drug enhancer platform that improves the efficacy and safety of a multitude of biological-/biosimilar-based pharmaceuticals used in the treatment of cancer and infectious diseases. The Company's head office address and registered and records office is 1680 – 200 Burrard Street, Vancouver, British Columbia, Canada, V6C 3L6.

On April 30, 2021, the Company became a reporting issuer, and on May 7, 2021, the Company's Common Shares were listed on the Canadian Securities Exchange and began trading under the symbol "DTC".

2. GOING CONCERN

These condensed interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company's ability to continue its operations and to realize assets at their carrying value is dependent upon its ability to generate positive cash flows and/or obtain additional financing sufficient to fund its development and operating costs. The Company may be able to generate working capital to fund its operations by raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. Based on its current plans, budgeted expenditures and cash requirements, the Company does not have sufficient cash to finance its current plans for at least twelve months from the date the condensed interim financial statements are issued. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. These condensed interim financial statements do not give effect to any adjustments required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed interim financial statements.

If the going concern assumption were not appropriate for these condensed interim financial statements, then adjustments may be necessary in the carrying values of assets and liabilities, the reported expenses and the statement of financial position classifications used. Such adjustments could be material.

The Company's business may be affected by changes in political and market conditions, such as interest rates, availability of credit, inflation rates, changes in laws, and national and international circumstances. Recent geopolitical events, including, the outbreaks of the coronavirus (COVID-19) pandemic, relations between NATO and the Russian Federation regarding the situation in Ukraine, and potential economic global challenges, such as the risk of higher inflation and the energy crises, may create further uncertainty and risk with respect to the prospects of the Company's business.

3. BASIS OF PREPARATION

a) Statement of compliance

The condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The condensed interim financial statements of the Company should be read in conjunction with the Company's June 30, 2022 audited financial statements, which have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

3. BASIS OF PREPARATION (Continued)

a) Statement of compliance (continued)

These condensed interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on February 24, 2023.

b) Basis of measurement

These condensed interim financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies (note 4). These condensed interim financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

4. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in note 4 to the audited financial statements as at June 30, 2022 and for the year then ended, except for the following:

a) Convertible debt

Convertible debentures are financial instruments that are accounted for separately depending on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

b) Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. The residual value, useful life and depreciation method are evaluated every reporting period, and changes to the residual value, estimated useful life or depreciation method resulting from such review are accounted for prospectively. Depreciation is provided for using the declining-balance method at the following rate per annum:

Lab equipment	20%

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income/loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next fiscal year are discussed below.

a) Going concern risk assessment

The assessment of the Company's ability to continue as a going concern requires significant judgment. The condensed interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, as disclosed in note 2.

b) Impairment of intangible assets

The application of the Company's accounting policy for intangible assets and impairment of the capitalized expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the year the new information becomes available.

6. FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash is classified as fair value through profit or loss; and accounts payable and accrued liabilities, as amortized cost. The carrying values of these instruments approximate their fair values due to their short term to maturity.

The following table sets forth the Company's financial asset measured at fair value by level within the fair value hierarchy:

December 31, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	$ 162,430	$ -	$ -	$ 162,430

June 30, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	$ 506,696	$ -	$ -	$ 506,696

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

6. FINANCIAL INSTRUMENTS (Continued)

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash, by placing it at major Canadian financial institutions. The Company has minimal credit risk. The sales tax receivable balance of $73,537 (June 30, 2022 - $27,756) is owing from the Canada Revenue Agency and Revenu Québec.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of December 31, 2022 equal $2,548,321 (June 30, 2022 - $1,107,224). All of the liabilities presented as accounts payable are due within 30 days of the reporting date. The cash available is not sufficient to meet the Company's financial obligations at December 31, 2022. The Company will need to raise additional capital in order to address its liquidity. See note 14.

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on capital.

i) Currency risk – The Company has no funds held in a foreign currency and holds a material amount of accounts payable and accrued liabilities in United States dollars. A fluctuation in the exchange rate between the Canadian and United States dollars of 10% would result in a $73,000 change in the Company's accounts payable and accrued liabilities. The Company does not use any techniques to mitigate currency risk.

ii) Interest rate risk – Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash is at nominal interest rates, and therefore, the Company does not consider interest rate risk to be significant. The Company has no interest-bearing financial liabilities.

iii) Other price risk – Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk.

d) Capital management

The Company considers its capital to be comprised of shareholders' equity.

(Unaudited – Expressed in Canadian Dollars)

6. FINANCIAL INSTRUMENTS (Continued)

d) Capital management (continued)

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the six months ended December 31, 2022. The Company is not subject to externally imposed capital requirements.

7. EQUIPMENT

		Lab Equipment
Cost		
Balance at June 30, 2021 and June 30, 2022	$	-
Additions		60,770
Balance at December 31, 2022	$	60,770
Accumulated Depreciation		
Balance at June 30, 2021 and June 30, 2022	$	-
Depreciation		6,077
Balance at December 31, 2022	$	6,077
Net Book Value, June 30, 2022	**$**	**-**
Net Book Value, December 31, 2022	**$**	**54,693**

8. INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS

On May 12, 2017, prior to the incorporation of the Company, a precursor entity to the Company and a former principal of the Company, entered into an Intellectual Property Assignment and Royalty Agreement (the "Original IP Assignment and Royalty Agreement") with TransferTech Sherbrooke, a limited liability partnership ("TTS"), and Jeffrey Victor Leyton ("Leyton"), a professor at the Université de Sherbrooke. The Original IP Assignment and Royalty Agreement assigns Leyton's invention known as "Novel Immunoconjugates with cholic acid nuclear localization sequence peptide and uses thereof" (the "Accum Invention") and any related intellectual property to the Company.

8. INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS (Continued)

On May 20, 2020, the Company and TTS entered into an amended and restated Intellectual Property Assignment and Royalty Agreement (the "Amended IP Assignment and Royalty Agreement"), which amends and restates the Original IP Assignment and Royalty Agreement, assigning the Accum Invention and any related intellectual property to the Company in exchange for consideration as follows:

- $25,000 upon completion of the agreement (paid); and
- The issuance of 2,085,714 Common Shares of the Company (issued and valued at $312,857).

The Company must also make milestone payments related to the Accum Invention and any related or derivative inventions as follows:

- $10,000 within 30 days of the completion of the first non-rodent positive toxicology study;
- $25,000 within 30 days of the recruitment of the first phase 1 patient;
- $50,000 within 30 days of the recruitment of the first phase 2 patient;
- $100,000 within 30 days of the recruitment of the first phase 3 patient; and
- $250,000 within 30 days of the first regulatory approval from a relevant registration authority.

In addition, the Company must pay a royalty of 3% calculated on the net revenues and all commercial activities involving the Accum Invention, and 4% calculated on the net revenues and all commercial activities involving any related or derivative inventions.

The Company was also required to enter into a research contract for a minimum of $45,000 (completed). During the year ended June 30, 2022, the research contract was terminated and the $45,000 was refunded to the Company.

The Company has determined that the cash and share consideration paid for the Amended IP Assignment and Royalty Agreement, along with the costs of the research contract, do not qualify as development costs. Accordingly, the amounts have been expensed to research and lab fees.

As at December 31, 2022, the Company has capitalized $46,018 of patent costs as intangible assets.

On December 1, 2020, the Company entered into an option and right of first refusal agreement to acquire intellectual property. In order to acquire the intellectual property, the Company paid $25,000 and must make additional payments as follows:

- Up to $200,000 in development costs on or before March 31, 2023 to exercise the option ($164,195 incurred as of December 31, 2022);
- $75,000 upon completion of the acquisition;
- A minimum of $200,000 related to a service agreement for continuing development to be entered into between the Company and the vendor at a future date within 36 months of the option exercise date; and
- $100,000 upon submission of a patent for the intellectual property.

The Company's Chief Technical Scientific Officer is an officer of the vendor. The Company has determined the costs do not qualify as development costs. Accordingly, the amounts have been expensed to research and lab fees.

During the six months ended December 31, 2022, certain patents were granted, and the Company began depreciating costs associated with these patents.

(Unaudited – Expressed in Canadian Dollars)

8. INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS (Continued)

		Intellectual Property
Cost		
Balance at June 30, 2021, June 30, 2022 and December 31, 2022	$	46,018
Accumulated Depreciation		
Balance at June 30, 2021 and June 30, 2022	$	-
Depreciation		6,672
Balance at December 31, 2022	$	6,672
Net Book Value, June 30, 2022	**$**	**46,018**
Net Book Value, December 31, 2022	**$**	**39,346**

9. CONVERTIBLE DEBENTURES

On November 16, 2022, the Company closed a non-brokered private placement of 2,355 convertible debenture units for gross proceeds of $2,355,000. Each debenture unit consists of: (i) $1,000 principal amount of 8.0% unsecured convertible debenture and (ii) 636 common share purchase warrants. The debentures bear interest at 8.0% per annum, payable at maturity, and mature on November 16, 2024. The debentures are convertible at the option of the holder into Common Shares of the Company at a conversion price of $1.57 per Common Share.

Each warrant is exercisable to acquire one Common Share at an exercise price of $2.50 per share until November 16, 2024. In connection with the offering, the Company paid a cash fee of $188,400 and issued 120,000 finders' warrants to a finder. Each finder's warrant entitles the holder thereof to purchase one Common Share at an exercise price of $2.50 per share until November 16, 2024. The finders' warrants had a fair value of $97,674 estimated using the Black-Scholes option pricing model with a volatility of 102%, risk-free interest rate of 3.84%, dividend rate of 0% and expected life of 2 years.

The debentures are compound instruments, and the proceeds are required to be bifurcated to record the fair value of the separate debt and equity components. The fair value of the debt was determined using a discounted cash flow model using an estimated market interest rate for equivalent debt of 18%. The initial fair value of the debt was calculated to be $1,911,014 with the residual portion of $443,986 allocated to both equity ($245,296) and the warrants ($198,690). Transaction costs totaled $295,463, of which $239,760 were allocated to the liability component and offset the carrying value and are amortized using the effective interest method as finance costs over the expected life of the debentures. Transactions costs of $30,775 were charged to the equity component and $24,928 were charged to the warrant component.

(Unaudited – Expressed in Canadian Dollars)

9. CONVERTIBLE DEBENTURES (Continued)

Convertible debenture transactions are summarized as follows:

	Six Months Ended December 31, 2022	Year Ended June 30, 2022
Opening balance	$ -	$ -
Additions from principal amounts	2,355,000	-
Equity component	(245,296)	-
Warrant component	(198,690)	-
Transaction costs	(239,760)	-
Interest accretion	51,038	-
	$ 1,722,292	$ -
Current portion	$ -	$ -
Non-current portion	$ 1,722,292	$ -

10. RELATED PARTY TRANSACTIONS

These amounts of key management compensation are included in the amounts shown on the condensed interim statements of comprehensive loss:

	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Consulting fees	$ 36,000	$ 36,000
Management fees	81,000	77,241
Research and lab fees	60,096	64,714
Share-based compensation	147,567	248,503
	$ 324,663	$ 426,458

During the year ended June 30, 2021, the Company entered into various consulting agreements that included key management (note 13).

During the six months ended December 31, 2022, the Company paid research and lab fees of $91,474 (2021 - $221,307) to companies in which management and directors are principals.

As at December 31, 2022, the Company had accounts payable of $nil (June 30, 2022 - $127,500) with companies controlled by officers and directors. The balances owing are unsecured, non-interest-bearing and have no specific terms of repayment.

(Unaudited – Expressed in Canadian Dollars)

11. SHARE CAPITAL

a) Authorized

Unlimited Class A Common Shares, voting, participating, without par value ("Common Shares")

On December 9, 2021, the Company amended its Articles of Incorporation to remove the Class A Special Shares, Class B Common Shares, Class B Special Shares, Class C Common Shares, Class C Special Shares and Class D Special Shares from its authorized share capital. The amendment did not result in any changes to the issued and outstanding share capital.

b) Issued and outstanding

During the six months ended December 31, 2022

During the six months ended December 31, 2022, the Company received $1,314,275 on the exercise of 1,216,000 warrants. As compensation to an agent for soliciting the exercise of 889,500 warrants, the Company paid finder's fees of $55,594 and issued 44,475 finder's warrants valued at $31,310 (note 11(c)). Each finder's warrant is exercisable into one Common Share of the Company at a price of $2.50 for a period of two years. The Company transferred $140,887 from the share-based payments reserve to share capital in relation to the exercise.

During the year ended June 30, 2022

During the year ended June 30, 2022, the Company received $1,098,185 on the exercise of 1,412,400 warrants. The Company transferred $264,609 from the share-based payments reserve to share capital in relation to the exercise.

c) Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Six Months Ended December 31, 2022		**Year Ended June 30, 2022**	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	8,812,000	$ 1.18	10,224,400	$ 1.12
Issued	1,662,255	$ 2.50	-	-
Exercised	(1,216,000)	$ 1.08	(1,412,400)	$ 0.78
Outstanding, end of period	9,258,255	$ 1.43	8,812,000	$ 1.18

(Unaudited – Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

c) Warrants (continued)

The following warrants were outstanding and exercisable at December 31, 2022:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	December 31, 2022
May 7, 2023	0.35	$ 1.25	7,196,000
April 30, 2024	1.33	$ 0.15	400,000
September 23, 2024	1.73	$ 2.50	44,475
November 16, 2024	1.88	$ 2.50	1,617,780
	0.66		9,258,255

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its finder's warrants issued. During the six months ended December 31, 2022, 164,475 (year ended June 30, 2022 - nil) finder's warrants were issued with a fair value of $128,984 (year ended June 30, 2022 - $nil).

The fair value of each finder's warrant issued was calculated using the following weighted average assumptions:

	Six Months Ended December 31, 2022	Year Ended June 30, 2022
Expected life (years)	2.00	N/A
Risk-free interest rate	3.82%	N/A
Annualized volatility	102%	N/A
Dividend yield	N/A	N/A
Stock price at grant date	$ 1.71	N/A
Exercise price	$ 2.50	N/A
Weighted average grant date fair value	$ 0.78	N/A

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has estimated the volatility of the share price based on comparable start-up companies' volatilities.

During the six months ended December 31, 2022, the Company transferred $140,887 (year ended June 30, 2022 - $264,609) from the share-based payments reserve to share capital, as 316,500 (year ended June 30, 2022 - 824,900) finder's warrants were exercised.

d) Stock options

The Company has a stock option plan to grant incentive stock options to directors, officers, employees and consultants. Under the plan, the aggregate number of Common Shares that may be subject to option at any one time may not exceed 10% of the issued Common Shares of the Company as of that date, including options granted prior to the adoption of the plan. Options granted may not exceed a term of 10 years. All options vest when granted unless they are otherwise specified by the Board of Directors.

(Unaudited – Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

d) Stock options (continued)

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Six Months Ended December 31, 2022		**Year Ended June 30, 2022**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,510,000	$ 1.58	1,500,000	$ 1.53
Issued	250,000	$ 1.97	160,000	$ 4.37
Expired	(10,000)	$ 7.35	(150,000)	$ 4.06
Outstanding, end of period	1,750,000	$ 1.60	1,510,000	$ 1.58

The following stock options were outstanding and exercisable at December 31, 2022:

Expiry Date	**Weighted Average Remaining Contractual Life in Years**	**Exercise Price**	**Outstanding**	**Exercisable**
May 10, 2023	0.36	$ 3.00	100,000	100,000
July 18, 2023	0.55	$ 2.00	50,000	50,000
October 9, 2023	0.77	$ 1.25	700,000	700,000
October 23, 2023	0.81	$ 1.25	250,000	250,000
November 28, 2023	0.91	$ 1.90	100,000	100,000
January 5, 2024	1.01	$ 1.25	400,000	400,000
November 9, 2024	1.86	$ 6.50	50,000	50,000
December 8, 2025	2.94	$ 2.03	100,000	100,000
	0.97		1,750,000	1,750,000

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. Accordingly, share-based payments of $231,996 (year ended June 30, 2022 - $371,270) were recognized during the six months ended December 31, 2022.

(Unaudited – Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

d) Stock options (continued)

The fair value of each stock option granted was calculated using the following weighted average assumptions:

	Six Months Ended December 31, 2022	Year Ended June 30, 2022
Expected life (years)	1.80	1.63
Risk-free interest rate	3.78%	1.82%
Annualized volatility	106%	98%
Dividend yield	N/A	N/A
Stock price at grant date	$ 1.91	$ 4.32
Exercise price	$ 1.97	$ 4.37
Weighted average grant date fair value	$ 0.99	$ 2.32

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has estimated the volatility of the share price based on comparable start-up companies' volatilities.

During the six months ended December 31, 2022, the Company transferred $34,848 (year ended June 30, 2022 - $360,943) from the share-based payments reserve to deficit, as 10,000 (year ended June 30, 2022 - 150,000) stock options expired unexercised.

e) Escrow shares

At December 31, 2022, there were 983,700 Common Shares owned by directors and officers held in escrow; 327,900 Common Shares will be released from escrow on each of the following dates: May 7, 2023, November 7, 2023 and May 7, 2024.

Additionally, at December 31, 2022, there were 938,571 Common Shares held in escrow; 312,857 Common Shares will be released from escrow on each of the following dates: May 7, 2023, November 7, 2023 and May 7, 2024.

12. SEGMENTED DISCLOSURE

The Company has one operating segment, being research and development. All of the Company's assets are located in Canada.

13. COMMITMENTS

On September 18, 2020 and October 23, 2020, the Company entered into consulting agreements with its Chief Executive Officer, Chief Financial Officer, Corporate Secretary and Chief Technical Scientific Officer. The consulting agreements have indefinite terms and monthly fees totaling $25,760. In the event the agreements are terminated by the Company or the consultants as a result of a change in control, the Company would be required to pay a total of $77,250 to the consultants.

14. SUBSEQUENT EVENTS

a) Subsequent to December 31, 2022, the Company received $4,443,750 on the exercise of 3,731,000 warrants. As compensation to an agent for soliciting the exercise of 3,382,000 warrants, the Company paid finder's fees of $211,375 and issued 169,100 finder's warrants.

b) Subsequent to December 31, 2022, the Company received $100,000 on the exercise 50,000 stock options.

c) On January 10, 2023, the Company granted 50,000 stock options to a consultant with an exercise price of $2.90 and a term to expiry of one year. Each finder's warrant is exercisable into one Common Share of the Company at a price of $3 for a period of two years.