# Defence Therapeutics Inc.

## Financial Statements

Years Ended June 30, 2023 and 2022

(Expressed in Canadian Dollars)

Defence Therapeutics Inc.

Years Ended June 30, 2023 and 2022

| **INDEX** | **Page** |
|---|---|
| **Financial Statements** | |

Crowe MacKay LLP
1100 - 1177 West Hastings Street
Vancouver, BC V6E 4T5
Main +1 (604) 687-4511
Fax +1 (604) 687-5805
www.crowemackay.ca

# Independent Auditor's Report

To the Shareholders of Defence Therapeutics Inc.

**Opinion**

We have audited the financial statements of Defence Therapeutics Inc. (the "Company"), which comprise the statements of financial position as at June 30, 2023 and June 30, 2022 and the statements of comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2023 and June 30, 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 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 2 to the financial statements which describes the material uncertainty 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. Other than the matter described in the Material Uncertainty Related to Going Concern section, we have determined there are no key audit matters to be communicated in our report.

**Other Information**

Management is responsible for the other information. The other information comprises:

- 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 the other information prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 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 Diana Huang.

**"Crowe MacKay LLP"**

**Chartered Professional Accountants**
**Vancouver, Canada**
**October 27, 2023**

# Defence Therapeutics Inc.
Statements of Financial Position
June 30,
(Expressed in Canadian Dollars)

| | 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | $ 2,792,931 | $ 506,696 |
| Receivables | 149,605 | 27,756 |
| Prepaids | 492,175 | 139,196 |
| | 3,434,711 | 673,648 |
| **Non-current** | | |
| Equipment | 59,222 | - |
| Intangible assets (note 7) | 38,776 | 46,018 |
| | 97,998 | 46,018 |
| | $ 3,532,709 | $ 719,666 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (note 9) | $ 220,473 | $ 1,107,224 |
| **Non-current** | | |
| Convertible debentures – non-current portion (note 8) | 1,746,069 | - |
| | 1,966,542 | 1,107,224 |
| **Shareholders' Equity (Deficiency)** | | |
| **Share Capital** (note 10) | 16,951,207 | 9,333,954 |
| **Share-based Payments Reserve** (note 10) | 1,387,080 | 794,153 |
| **Equity Component of Convertible Debentures** (note 8) | 135,058 | - |
| **Deficit** | (16,907,178) | (10,515,665) |
| | 1,566,167 | (387,558) |
| | $ 3,532,709 | $ 719,666 |

**Going Concern** (note 2)
**Commitments** (note 13)
**Subsequent Events** (note 16)

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 financial statements.

Defence Therapeutics Inc.
Statements of Comprehensive Loss
For the Years Ended June 30,
(Expressed in Canadian Dollars)

| | 2023 | 2022 |
|---|---|---|
| **Expenses** | | |
| Accounting and legal | $ 108,650 | $ 248,344 |
| Advertising, promotion and shareholder communication | 1,962,702 | 2,524,152 |
| Consulting fees (note 9) | 240,431 | 132,462 |
| Depreciation of equipment | 6,581 | - |
| Depreciation of intellectual property (note 7) | 7,242 | - |
| Foreign exchange loss | 66,299 | 23,867 |
| Interest accretion (note 8) | 262,933 | - |
| Management fees (note 9) | 192,000 | 162,729 |
| Office and general | 100,309 | 74,604 |
| Research and lab fees (notes 9 and 11) | 3,581,365 | 3,760,262 |
| Share-based compensation (notes 9 and 10) | 295,178 | 371,270 |
| Transfer agent and filings fees | 50,902 | 46,308 |
| | (6,874,592) | (7,343,998) |
| **Other Item** | | |
| Interest income | 6,809 | - |
| **Loss Before Income Taxes** | (6,867,783) | (7,343,998) |
| **Deferred Tax Recovery (note 15)** | 105,000 | - |
| **Net Loss and Comprehensive Loss for the Year** | $ (6,762,783) | $ (7,343,998) |
| **Basic and Diluted Loss Per Share** | $ (0.17) | $ (0.20) |
| **Weighted Average Number of Common Shares Outstanding – Basic and Diluted** | 39,660,282 | 36,077,323 |

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

Defence Therapeutics Inc.
Statements of Changes in Equity (Deficiency)
(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 | 1,412,400 | 1,098,185 | - | - | - | 1,098,185 |
| Fair value transferred on exercise of warrants | - | 264,609 | (264,609) | - | - | - |
| Fair value transferred on expiry of stock options | - | - | (360,943) | - | 360,943 | - |
| Share-based compensation | - | - | 371,270 | - | - | 371,270 |
| Net loss and comprehensive loss for the year | - | - | - | - | (7,343,998) | (7,343,998) |
| **Balance, June 30, 2022** | **36,633,174** | **9,333,954** | **794,153** | **-** | **(10,515,665)** | **(387,558)** |
| Shares issued on exercise of warrants | 6,947,500 | 8,148,650 | - | - | - | 8,148,650 |
| Share issuance costs | - | (1,007,441) | 617,291 | - | - | (390,150) |
| Fair value transferred on exercise of warrants | - | 168,580 | (168,580) | - | - | - |
| Shares issued on exercise of stock options | 50,000 | 100,000 | - | - | - | 100,000 |
| Fair value transferred on exercise of stock options | - | 4,139 | (4,139) | - | - | - |
| Fair value transferred on expiry of stock options | - | - | (371,270) | - | 371,270 | - |
| Share-based compensation | - | - | 295,178 | - | - | 295,178 |
| Issuance of convertible debentures, net of tax | - | - | 224,447 | 156,510 | - | 380,957 |
| Conversion of convertible debentures | 150,000 | 203,325 | - | (21,452) | - | 181,873 |
| Net loss and comprehensive loss for the year | - | - | - | - | (6,762,783) | (6,762,783) |
| **Balance, June 30, 2023** | **43,780,674** | **$ 16,951,207** | **$ 1,387,080** | **$ 135,058** | **$ (16,907,178)** | **$ 1,566,167** |

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

## Defence Therapeutics Inc.
Statements of Cash Flows
For the Years Ended June 30,
(Expressed in Canadian Dollars)

| | 2023 | 2022 |
|---|---|---|
| **Operating Activities** | | |
| Net loss for the year | $ (6,762,783) | $ (7,343,998) |
| Items not involving cash | | |
| Deferred tax recovery | (105,000) | - |
| Depreciation of equipment | 6,581 | - |
| Depreciation of intellectual property | 7,242 | - |
| Interest accretion | 262,933 | - |
| Share-based compensation | 295,178 | 371,270 |
| Changes in non-cash working capital | | |
| Receivables | (121,849) | 43,868 |
| Prepaids | (352,979) | (100,503) |
| Accounts payable and accrued liabilities | (886,751) | 984,968 |
| **Cash Used in Operating Activities** | (7,657,428) | (6,044,395) |
| **Investing Activity** | | |
| Purchase of equipment | (65,803) | - |
| **Cash Used in Investing Activity** | (65,803) | - |
| **Financing Activities** | | |
| Shares issued for cash | 8,248,650 | 1,098,185 |
| Share issuance costs | (390,150) | - |
| Proceeds from convertible debenture issuance | 2,355,000 | - |
| Repayments of convertible debentures interests | (6,246) | - |
| Transaction costs | (197,788) | - |
| **Cash Provided by Financing Activities** | 10,009,466 | 1,098,185 |
| **Inflow (Outflow) of Cash** | 2,286,235 | (4,946,210) |
| **Cash, Beginning of Year** | 506,696 | 5,452,906 |
| **Cash, End of Year** | $ 2,792,931 | $ 506,696 |

**Supplemental disclosures with respect to cash flows** (note 14)

The accompanying notes are an integral part of these 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 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 financial statements are issued. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. These 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 financial statements.

If the going concern assumption were not appropriate for these 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 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

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 reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on October 27, 2023.

**3. BASIS OF PREPARATION** (Continued)

b) Basis of measurement

These 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 financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies have been applied consistently throughout by the Company for purposes of these financial statements.

a) Intangible assets

Intangible assets consist of intellectual property, including patent applications. Intangible assets with finite useful lives are measured at cost less accumulated amortization and impairment losses. Intangible assets are amortized on a straight-line basis over the estimated useful life, being the life of the patent applications, which is 20 years from the date of application once the patent has been granted.

b) Impairment of non-financial assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable, and at least annually. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.

An impairment loss is charged to profit or loss, except to the extent they reverse gains previously recognized in accumulated other comprehensive income/loss.

c) Financial instruments

All financial assets not classified at amortized cost or fair value through other comprehensive income ("FVTOCI") are measured at fair value through profit or loss ("FVTPL"). On initial recognition, the Company can irrevocably designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

c) Financial instruments (continued)

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- It is held within a business model whose objective is to hold the financial asset to collect the contractual cash flows associated with the financial asset instead of selling the financial asset for a profit or loss; and
- Its contractual terms give rise to cash flows that are solely payments of principal and interest.

All financial instruments are initially recognized at fair value on the statement of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified as FVTPL are measured at fair value with changes in those fair values recognized in profit or loss for the period. Financial assets and financial liabilities classified as amortized cost are subsequently measured at amortized cost using the effective interest method. Financial assets classified as FVTOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income/loss. When the financial instrument is sold, the cumulative gain or loss remains in accumulated other comprehensive income/loss and is not reclassified to profit or loss.

Cash is classified as FVTPL. Accounts payable and accrued liabilities and convertible debentures are classified as amortized cost.

*Fair value hierarchy*

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) 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.
Level 3: Inputs for assets or liabilities that are not based on observable market data.

d) Income taxes

Income tax expense consisting of current and deferred tax expense is recognized in the statement of comprehensive income/loss. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

d) Income taxes (continued)

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

e) Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, stock options and share purchase warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

The Company has adopted the residual method with respect to the measurement of shares and warrants issued as private placement units. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced, and any residual value is allocated to the warrants reserve.

The fair value of the common shares is based on the closing quoted bid price on the announcement date. The fair value attributed to the warrants is recorded in equity reserves. Upon expiry, the fair value is transferred to deficit.

f) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new or technical knowledge and understanding, are recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset. The expenditures capitalized include the costs of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs on qualifying assets. Other development expenditures are recognized in profit or loss as incurred.

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

g) Share-based payments

The Company grants share options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded method. Fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black Scholes option pricing model.

For both employees and non-employees, the fair value of share-based payments is recognized as an expense with a corresponding increase in share-based payments reserve. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in share capital and the related share-based payment in share-based payments reserve is transferred to share capital.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where a grant of options is cancelled and settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense. The amounts recorded in reserves for unexercised share options are transferred to deficit upon their expiry or cancellation.

h) Earnings (loss) per share

The Company presents basic earnings (loss) per share data for its common shares, calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

i) Leases

On the date that the leased asset becomes available for use, the Company recognizes a right-of-use ("ROU") asset and a corresponding lease obligation. Interest expense associated with the lease obligation is charged to the statement of income/loss over the lease period with a corresponding increase to the lease obligation. The lease obligation is reduced as payments are made against the principal portion of the lease. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation of the ROU asset is recognized in depreciation expense.

ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measured as the net present value of the lease payments, which may include: fixed lease payments, variable lease payments that are based on an index or a rate, and amounts expected to be payable under residual value guarantees and payments to exercise an extension or termination option if the Company is reasonably certain to exercise either of those options. ROU assets are measured at cost, which is comprised of the amount of the initial measurement of the lease obligation, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. The rate implicit in the lease is used to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

j) Foreign exchange

The functional currency of the Company is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the exchange rates prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the reporting date. Non-monetary items are measured at historical cost in a functional currency and are not retranslated.

k) 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.

l) 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% |

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

m) Investment tax credits

Investment tax credits under the Canadian government Scientific Research and Experimental Development ("SR&ED") program are recorded using the cost reduction approach based on International Accounting Standard ("IAS") 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Investment tax credits related to current research and development expenses are included in the statement of comprehensive income/loss as a reduction of expenses. Investment tax credits arising on qualified expenditures are recognized when there is reasonable assurance that the credits will be realized. The investment tax credits are subject to audits by the Canada Revenue Agency and the actual amount may change depending on the outcome of such audits.

n) Accounting standards issued but not yet effective

*Disclosure of accounting policies (amendments to IAS 1* Presentation of Financial Statements *and IFRS Practice Statement 2 Making Materiality Judgments)*

These amendments continue the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures.

These amendments are effective for reporting periods beginning on or after January 1, 2023. These amendments are expected to reduce the disclosure of accounting policies for the Company.

*Deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12 Income Taxes)*

These amendments clarify how companies account for deferred taxes on transactions such as leases and decommissioning obligations, with a focus on reducing diversity in practice. They narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

These amendments to IAS 12 are effective for years beginning on or after January 1, 2023. These amendments are expected to have no impact for the Company.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Accounting standards issued but not yet effective (continued)

*Classification of liabilities as current or non-current (amendments to IAS 1* Presentation of Financial Statements*)*

IAS 1 has been amended to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

These amendments to IAS 1 are effective for years beginning on or after January 1, 2024. These amendments are expected to have no impact for the Company.

## 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.

*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.

Going concern risk assessment

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

*Key sources of estimation uncertainty*

Convertible debentures

The debt component of the convertible debenture is calculated using a discounted cash flow method, which requires management to make an estimate of an appropriate discount rate. Changes in the discount rate can materially affect the calculation of the debt component.

(Expressed in Canadian Dollars)

## 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 FVTPL; and accounts payable and accrued liabilities and convertible debentures, 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:

| **June 30, 2023** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Cash | $ 2,792,931 | $ - | $ - | $ 2,792,931 |

| **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.

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. Of the $149,605 (2022 - $27,756) receivables balance, $72,037 (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 June 30, 2023 equal $1,966,542 (2022 - $1,107,224). The face value of the convertible debenture is $2,458,857 and matures on November 16, 2024. All of the liabilities presented as accounts payable are due within 30 days of the reporting date.

**6. FINANCIAL INSTRUMENTS** (Continued)

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 $10,000 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. The Company currently has no debt subject to variable interest rates. Accordingly, the Company does not consider interest rate risk to be significant.

*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 (deficiency).

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 year ended June 30, 2023. The Company is not subject to externally imposed capital requirements.

## 7. 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.

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 June 30, 2023, 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 (incurred);
- $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.

(Expressed in Canadian Dollars)

## 7. INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS (Continued)

The Company did not exercise the option by the May 31, 2023 deadline and did not complete the acquisition of 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 year ended June 30, 2023, certain patents were granted, and the Company began depreciating costs associated with these patents.

| | | Intellectual Property |
|---|---|---|
| **Cost** | | |
| Balance at June 30, 2021, 2022 and 2023 | $ | 46,018 |
| **Accumulated Depreciation** | | |
| Balance at June 30, 2021 and 2022 | $ | - |
| Depreciation | | 7,242 |
| Balance at June 30, 2023 | $ | 7,242 |
| **Net Book Value, June 30, 2022** | **$** | **46,018** |
| **Net Book Value, June 30, 2023** | **$** | **38,776** |

## 8. 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% unsecured convertible debenture; and (ii) 636 common share purchase warrants. The debentures bear interest at 8% 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 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 until November 16, 2024. The finders' warrants had a fair value of $97,675 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.

(Expressed in Canadian Dollars)

## 8. CONVERTIBLE DEBENTURES (Continued)

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 $1,911,015 with the residual portion of $443,985 allocated to both the equity component ($245,295) 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. In addition, the resulting deferred tax amount of $105,000 has been charged to the equity component.

On March 20, 2023, debentures with a principal amount of $235,500 were converted by the holder into 150,000 common shares, with the debt having a value of $181,873 at the date of conversion. The Company repaid interest of $6,246 in relation to the conversions.

Convertible debenture transactions are summarized as follows:

| | Year Ended June 30, 2023 | Year Ended June 30, 2022 |
|---|---|---|
| Opening balance | $ - | $ - |
| Additions from principal amounts | 2,355,000 | - |
| Equity component | (245,295) | - |
| Warrant component | (198,690) | - |
| Transaction costs | (239,760) | - |
| Interest accretion | 262,933 | - |
| Repayments of interests | (6,246) | - |
| Conversion to shares | (181,873) | - |
| | $ 1,746,069 | $ - |
| Current portion | $ - | $ - |
| Non-current portion | $ 1,746,069 | $ - |

## 9. RELATED PARTY TRANSACTIONS

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

| | Year Ended June 30, 2023 | Year Ended June 30, 2022 |
|---|---|---|
| Consulting fees | $ 79,500 | $ 72,000 |
| Management fees | 192,000 | 162,729 |
| Research and lab fees | 120,192 | 131,267 |
| Share-based compensation | 147,567 | 248,503 |
| | $ 539,259 | $ 614,499 |

**9. RELATED PARTY TRANSACTIONS** (Continued)

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

During the year ended June 30, 2023, the Company paid research and lab fees of $345,962 (2022 - $433,691) to companies in which management and directors are principals.

As at June 30, 2023, the Company had accounts payable of $28,744 (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.

**10. 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 year ended June 30, 2023*

During the year ended June 30, 2023, the Company received $8,148,650 on the exercise of 6,947,500 warrants. As compensation to an agent for soliciting the exercise of 6,331,000 warrants, the Company paid finder's fees of $390,150 and issued 312,120 finder's warrants valued at $617,291 (note 10(c)). Each finder's warrant is exercisable into one Common Share of the Company at a price ranging from $2.50 to $4 for a period of two years. The Company transferred $168,580 from the share-based payments reserve to share capital in relation to the exercise.

During the year ended June 30, 2023, the Company received $100,000 on the exercise of 50,000 stock options. The Company transferred $4,139 from the share-based payments reserve to share capital in relation to the exercise.

On March 20, 2023, the Company issued 150,000 common shares at a value of $203,325 pursuant to a convertible debenture conversion (note 8). Upon conversion, $21,452 was allocated from equity component of convertible debenture to share capital.

*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.

(Expressed in Canadian Dollars)

**10. SHARE CAPITAL** (Continued)

c) Warrants

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

| | **Year Ended June 30, 2023** | | **Year Ended June 30, 2022** | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 8,812,000 | $ 1.18 | 10,224,400 | $ 1.12 |
| Issued | 1,929,900 | $ 2.62 | - | - |
| Exercised | (6,947,500) | $ 1.17 | (1,412,400) | $ 0.78 |
| Expired | (1,764,500) | $ 1.25 | - | - |
| Outstanding, end of year | 2,029,900 | $ 2.50 | 8,812,000 | $ 1.18 |

The following warrants were outstanding and exercisable at June 30, 2023:

| **Expiry Date** | **Weighted Average Remaining Contractual Life in Years** | **Exercise Price** | **June 30, 2023** |
|---|---|---|---|
| April 30, 2024 | 0.84 | $ 0.15 | 100,000 |
| September 23, 2024 | 1.24 | $ 2.50 | 44,475 |
| November 16, 2024 | 1.38 | $ 2.50 | 1,617,780 |
| January 30, 2025 | 1.59 | $ 3.00 | 169,100 |
| February 27, 2025 | 1.67 | $ 3.00 | 6,200 |
| April 27, 2025 | 1.83 | $ 4.00 | 61,020 |
| May 12, 2025 | 1.87 | $ 4.00 | 31,325 |
| | 1.39 | | 2,029,900 |

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its finders' warrants issued. During the year ended June 30, 2023, 432,120 (2022 - nil) finders' warrants were issued with a fair value of $714,965 (2022 - $nil).

(Expressed in Canadian Dollars)

**10. SHARE CAPITAL** (Continued)

c) Warrants (continued)

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

| | **Year Ended June 30, 2023** | **Year Ended June 30, 2022** |
|---|---|---|
| Expected life (years) | 2.00 | N/A |
| Risk-free interest rate | 3.78% | N/A |
| Annualized volatility | 98% | N/A |
| Dividend yield | N/A | N/A |
| Stock price at grant date | $ 3.06 | N/A |
| Exercise price | $ 3.02 | N/A |
| Weighted average grant date fair value | $ 1.65 | 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 year ended June 30, 2023, the Company transferred $168,580 (2022 - $264,609) from the share-based payments reserve to share capital, as 616,500 (2022 - 824,900) finders' 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.

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

| | **Year Ended June 30, 2023** | | **Year Ended June 30, 2022** | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 1,510,000 | $ 1.58 | 1,500,000 | $ 1.53 |
| Issued | 300,000 | $ 2.13 | 160,000 | $ 4.37 |
| Exercised | (50,000) | $ 2.00 | - | - |
| Expired | (160,000) | $ 4.37 | (150,000) | $ 4.06 |
| Outstanding, end of year | 1,600,000 | $ 1.39 | 1,510,000 | $ 1.58 |

(Expressed in Canadian Dollars)

**10. SHARE CAPITAL** (Continued)

d) Stock options (continued)

The following stock options were outstanding and exercisable at June 30, 2023:

| Expiry Date | Weighted Average Remaining Contractual Life in Years | Exercise Price | Outstanding | Exercisable |
|---|---|---|---|---|
| October 9, 2023* | 0.28 | $ 1.25 | 700,000 | 700,000 |
| October 23, 2023* | 0.32 | $ 1.25 | 250,000 | 250,000 |
| November 28, 2023 | 0.41 | $ 1.90 | 100,000 | 100,000 |
| January 5, 2024 | 0.52 | $ 1.25 | 400,000 | 400,000 |
| January 10, 2024 | 0.53 | $ 2.90 | 50,000 | 50,000 |
| December 8, 2025 | 2.44 | $ 2.03 | 100,000 | 100,000 |
| | 0.49 | | 1,600,000 | 1,600,000 |

* See note 16(b)

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 $295,178 (2022 - $371,270) were recognized during the year ended June 30, 2023.

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

| | Year Ended June 30, 2023 | Year Ended June 30, 2022 |
|---|---|---|
| Expected life (years) | 1.67 | 1.63 |
| Risk-free interest rate | 3.90% | 1.82% |
| Annualized volatility | 106% | 98% |
| Dividend yield | N/A | N/A |
| Stock price at grant date | $ 2.09 | $ 4.32 |
| Exercise price | $ 2.13 | $ 4.37 |
| Weighted average grant date fair value | $ 1.04 | $ 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 year ended June 30, 2023, the Company transferred $4,139 (2022 - $nil) from the share-based payments reserve to share capital, as 50,000 (2022 - nil) stock options were exercised. The weighted-average fair value on the date of exercise for stock options exercised during the year ended June 30, 2023 was $4.54 (2022 - $nil).

During the year ended June 30, 2023, the Company transferred $371,270 (2022 - $360,943) from the share-based payments reserve to deficit, as 160,000 (2022 - 150,000) stock options expired unexercised.

**10. SHARE CAPITAL** (Continued)

e) Escrow shares

At June 30, 2023, there were 655,800 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: November 7, 2023 and May 7, 2024.

Additionally, at June 30, 2023, there were 625,714 Common Shares held in escrow; 312,857 Common Shares will be released from escrow on each of the following dates: November 7, 2023 and May 7, 2024.

**11. RESEARCH AND LAB FEES**

Investment tax credits under the Canadian government SR&ED program of $240,481 for the year ended June 30, 2023 (2022 - $nil) have been recorded as a reduction of research and lab fees.

**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, the Company entered into consulting agreements with its chief executive officer, chief financial officer and corporate secretary. On March 21, 2023, the consulting agreements were amended. The consulting agreements have indefinite terms and monthly fees totalling $32,000. 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 $96,000 to the consultants. The consulting agreement with the Chief Executive Officer contains bonus payments upon reaching certain milestones up to $150,000.

On October 23, 2020, the Company entered into a consulting agreement with its chief technical scientific officer. The consulting agreement has an indefinite term and a minimum monthly fee of $6,260. In the event the agreement is terminated by the Company or the consultant as a result of a change in control, the Company would be required to pay a total of $18,780 to the consultant.

On May 9, 2023, the Company entered into a lease agreement for lab space commencing October 1, 2023 for a period of two years.

(Expressed in Canadian Dollars)

## 14. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

| | 2023 | 2022 |
|---|---|---|
| Income tax paid | $ - | $ - |
| Equity component of convertible debenture issuance, net of tax | $ 151,701 | $ - |
| Warrant component of convertible debenture issuance, net of tax | $ 187,284 | $ - |
| Transaction costs for convertible debenture issuance | $ 239,760 | $ - |
| Conversion of convertible debenture to shares | $ 181,873 | $ - |
| Fair value transferred on exercise of warrants | $ 168,580 | $ 264,609 |
| Fair value transferred on exercise of stock options | $ 4,139 | $ - |
| Fair value transferred on expiry of stock options | $ 371,270 | $ 360,943 |
| Fair value of finders' warrants issued | $ 617,291 | $ - |

Reconciliation of liabilities arising from financing activities for the years ended June 30, 2023 and 2022:

| | | | Non-cash items | | | | |
|---|---|---|---|---|---|---|---|
| | June 30,2021 and 2022 $ | Cash flow $ | Accretion $ | Bifurcation to Equity $ | Conversion $ | Interest payment $ | June 30, 2023 $ |
| Convertible debentures | - | 2,355,000 | 262,933 | (683,745) | (181,873) | (6,246) | 1,746,069 |
| Total | - | 2,355,000 | 262,933 | (683,745) | (181,873) | (6,246) | 1,746,069 |

## 15. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

| | Year Ended June 30, 2023 | Year Ended June 30, 2022 |
|---|---|---|
| Loss before income taxes | $ (6,762,783) | $ (7,343,998) |
| Statutory income tax rate | 27.00% | 27.00% |
| Income tax benefit computed at statutory tax rate | (1,826,000) | (1,983,000) |
| Non-deductible items | 81,000 | 100,000 |
| Unrecognized benefit of deferred income tax assets | 1,640,000 | 1,883,000 |
| Income tax expense (recovery) | $ (105,000) | $ - |

(Expressed in Canadian Dollars)

**15. INCOME TAXES** (Continued)

The following is the analysis of recognized deferred tax liabilities and deferred tax assets:

| | Year Ended June 30, 2023 | Year Ended June 30, 2022 |
|---|---|---|
| Deferred tax liabilities | | |
| Convertible debentures | $ (101,000) | $ - |
| Deferred tax liabilities | (101,000) | - |
| Deferred tax assets | | |
| Non-capital losses carried forward | 101,000 | - |
| Deferred tax assets | 101,000 | - |
| Net deferred income tax assets (liabilities) | $ - | $ - |

The unrecognized deductible temporary differences as at June 30, 2023 and 2022 are comprised of the following:

| | 2023 $ | Expiry Date | 2022 $ | Expiry Date |
|---|---|---|---|---|
| Intangible assets and equipment | 475,000 | None | 461,000 | None |
| Non-capital losses | 15,789,000 | 2039-2043 | 9,626,000 | 2039-2042 |
| Share-issuance costs | 742,000 | 2024-2027 | 431,000 | 2023-2025 |
| Unrecognized deductible temporary differences | 17,006,000 | | 10,518,000 | |

**16. SUBSEQUENT EVENTS**

a) Subsequent to June 30, 2023, debentures with a principal amount of $549,500 were converted by the holder into 349,999 common shares of the Company.

b) Subsequent to June 30, 2023, the Company received $173,750 on the exercise of 139,000 stock options, while 811,000 stock options expired unexercised.

c) On October 6, 2023, the Company granted 2,400,000 stock options to officers and directors exercisable at a price of $2.50 per share and with a term to expiry of 10 years.