



doseology

Doseology Sciences Inc.

Condensed Interim Consolidated Financial Statements
For the three and six months ended December 31, 2021 and 2020
(Unaudited)
(Expressed in Canadian dollars)

Notice of No Auditor Review

In accordance with National Instrument 51-102, the Company discloses that the accompanying condensed interim financial statements have been prepared by and are the responsibility of the Company's management. They have been reviewed and approved by the Company's Audit Committee and the Board of Directors.

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

Doseology Sciences Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - expressed in Canadian dollars)

| <u>As at</u> | <u>Note</u> | <u>December 31, 2021</u> | <u>June 30, 2021</u> |
|---|-------------|------------------------------|--------------------------|
| | | <u>\$</u> | <u>\$</u> |
| Assets | | | |
| Current assets | | | |
| Cash | | 2,621,521 | 3,733,524 |
| Receivables | 4 | 68,884 | 28,489 |
| Due from related parties | 11 | - | 15,096 |
| Prepaid expenses and deposits | 5 | 1,057,145 | 1,095,330 |
| Inventories | 6 | 174,433 | 129,238 |
| | | 3,921,983 | 5,001,677 |
| Property and equipment | 7 | 991,267 | 907,452 |
| Intangible assets | 8 | 61,822 | 81,072 |
| Total assets | | 4,975,072 | 5,990,201 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 9 | 98,563 | 416,595 |
| Subscription receipts liability | 12 | - | 2,309,494 |
| Lease liability - current portion | 10 | 89,646 | 28,529 |
| | | 188,209 | 2,754,618 |
| Lease liability - long term portion | 10 | 727,976 | 659,015 |
| Total liabilities | | 916,185 | 3,413,633 |
| Shareholders' Equity | | | |
| Share capital | 12 | 6,711,326 | 4,526,309 |
| Reserves | 13 | 259,709 | 108,448 |
| Deficit | | (2,912,148) | (2,058,189) |
| Total shareholders' equity | | 4,058,887 | 2,576,568 |
| Total liabilities and shareholders' equity | | 4,975,072 | 5,990,201 |

Nature of operations and going concern 1

Approved by the Board of Directors on March 1, 2022:

"Scott Reeves" Director

"Ralph Olson" Director

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

Doseology Sciences Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three and six months ended December 31, 2021 and 2020

((Unaudited - expressed in Canadian dollars))

| | Note | For the three months ended December 31, | | For the six months ended December 31, | |
|--|------|--|-------------------|--|-------------------|
| | | 2021 * \$ | 2020 * \$ | 2021 * \$ | 2020 * \$ |
| Expenses | | | | | |
| Marketing | | 83,509 | 44,602 | 116,290 | 49,623 |
| Investor relations | | 25,551 | - | 25,551 | - |
| Product development and other costs | | 22,212 | 56,379 | 48,755 | 91,519 |
| Leasehold operating costs | | 3,637 | 50,806 | 21,666 | 67,081 |
| Consulting fees | | 26,269 | 20,765 | 26,269 | 20,765 |
| Management fees | 11 | - | 87,000 | 24,000 | 152,500 |
| Professional fees | 11 | 23,888 | 80,946 | 50,425 | 89,134 |
| Listing expenses | 11 | 135,719 | 8,177 | 149,062 | 13,427 |
| Regulatory filings | | 2,474 | 925 | 2,474 | 925 |
| Office | | 11,619 | 6,677 | 23,025 | 9,032 |
| Salaries and benefits | | 95,781 | 30,443 | 186,310 | 30,443 |
| Share-based compensation | 13 | 38,633 | - | 61,655 | - |
| Depreciation and amortization | 7, 8 | 47,033 | 20,364 | 77,805 | 38,242 |
| | | (516,325) | (407,084) | (813,287) | (562,691) |
| Other income (expenses) | | | | | |
| Interest and other income | | (2,533) | - | 882 | - |
| Interest accretion | 10 | (21,889) | (17,048) | (39,021) | (34,046) |
| Loss on asset disposals | 7 | (2,533) | - | (2,533) | - |
| Gain on debt settlement | 12 | - | 6,000 | - | 6,000 |
| Loss and comprehensive loss for the period | | (543,280) | (418,132) | (853,959) | (590,737) |
| Loss per share - basic and diluted | | (0.01) | (0.02) | (0.02) | (0.03) |
| Weighted average number of shares outstanding - basic and diluted | | 39,126,821 | 23,659,853 | 36,800,939 | 21,414,017 |

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

Doseology Sciences Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the three and six months ended December 31, 2021 and 2020

(Unaudited - expressed in Canadian dollars)

| | Number of shares | Share capital \$ | Reserves \$ | Deficit \$ | Total shareholders' equity \$ |
|--|---------------------|---------------------|----------------|---------------|--|
| Balance - June 30, 2020 | 18,500,001 | 1,502,600 | - | (431,632) | 1,070,968 |
| Share issued for acquisition of Pendulum Craft Corp. ("Pendulum") | 4,400,779 | 376,884 | - | - | 376,884 |
| Loss for the period | - | - | - | (172,605) | (172,605) |
| Balance - December 31, 2020 | 22,900,780 | 1,879,484 | - | (604,237) | 1,275,247 |
| Balance - June 30, 2021 | 35,057,500 | 4,526,309 | 108,448 | (2,058,189) | 2,576,568 |
| Shares issued for cash | 5,942,500 | 2,377,000 | - | - | 2,377,000 |
| Share issued costs - cash | - | (91,555) | - | - | (91,555) |
| Share issued costs - warrants | - | (89,606) | 89,606 | - | - |
| Share issued costs - broker warrants | - | (10,822) | - | - | (10,822) |
| Share-based compensation | - | - | 61,655 | - | 61,655 |
| Loss for the period | - | - | - | (853,959) | (853,959) |
| Balance - December 31, 2021 | 41,000,000 | 6,711,326 | 259,709 | (2,912,148) | 4,058,887 |

* The numbers of shares have been restated to retroactively reflect the one-for-two share consolidation taking effect on April 26, 2021 (Note 12).

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

Doseology Sciences Inc.

Condensed Consolidated Interim Statements of Cash Flows
For the three and six months ended December 31, 2021 and 2020
(Unaudited - expressed in Canadian dollars)

| | For the six months ended | |
|---|--------------------------|----------------|
| | December 31, | |
| | 2021 | 2020 |
| | \$ | \$ |
| Operating activities | | |
| Loss for the period | (853,959) | (590,737) |
| Items not involving cash: | | |
| Depreciation and amortization | 77,805 | 38,242 |
| Share-based compensation | 61,655 | |
| Interest accretion | 39,021 | 34,046 |
| Loss on asset disposals | 2,533 | |
| Gain on debt settlement | - | (6,000) |
| | (672,945) | (524,449) |
| Changes in non-cash working capital items | | |
| Receivables | (40,395) | - |
| Prepaid expenses and deposits | 38,185 | (321,143) |
| Inventories | (45,195) | (117,992) |
| Accounts payable and accrued liabilities | (308,615) | 44,604 |
| Cash used in operating activities | (1,028,965) | (918,980) |
| Investing activities | | |
| Cash acquired in acquisition of Pendulum Craft | - | 109,082 |
| Proceeds from return of investment | - | 35,000 |
| Acquisition of property and equipment | (6,128) | (90,368) |
| Acquisition of intangible assets | - | (17,572) |
| Cash used in investing activities | (6,128) | 36,142 |
| Financing activities | | |
| Proceeds from share issuances | - | 2,015,855 |
| Payment for shares repurchased and returned to treasury | - | (275,000) |
| Share issued costs | (34,871) | (94,679) |
| Payments from related parties | 15,096 | - |
| Repayment of lease liability | (57,135) | (30,000) |
| Cash provided by (used in) financing activities | (76,910) | 1,616,176 |
| Increase (decrease) in cash during the period | (1,112,003) | 733,338 |
| Cash - beginning of the period | 3,733,524 | 340,896 |
| Cash - end of the period | 2,621,521 | 1,074,234 |
| Non-cash transaction: | | |
| Acquisition of Pendulum Craft Corp. | - | (376,884) |

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

Doseology Sciences Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2021 and 2020

(Unaudited - expressed in Canadian dollars, except share and per share amounts)

1. Nature of operations and going concern

Doseology Sciences Inc. (the "Company"), formerly known as Pcybin Therapeutic Inc., was incorporated on July 25, 2019 under the Business Corporations Act (British Columbia). The Company's registered and records office is located at 2080 – 777 Hornby Street, Vancouver, BC V6Z 1S4. The Company's primary business is to improve overall health with a focus on mental health through research, development and sale of its branded functional mushroom products.

On October 29, 2021, the Company obtained a receipt for its final non-offering, long form prospectus from the British Columbia Securities Commission. Concurrent with its prospectus filing, the Company also received approval from the Canadian Securities Exchange (the "CSE") to list the Company's common shares on their Exchange. The common shares of the Company have commenced trading on the CSE on November 15, 2021 under the symbol "MOOD".

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2021, the Company had an accumulated deficit of \$2,912,148 (June 30, 2021 - \$2,058,189) and working capital of \$3,733,774 (June 30, 2021 - \$2,247,059). In the course of developing its business, the Company will continue to incur losses. Management intends to finance its operations with equity financings. There is a risk that additional financing may not be available on a timely basis or on terms acceptable to the Company. These uncertainties may cast significant doubt regarding the Company's ability to continue as a going concern.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be 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. These adjustments could be material.

COVID-19

The outbreak of COVID-19 has spread across the globe and continues impacting worldwide economic activities. Conditions surrounding the pandemic continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which COVID-19 may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. While these events remain uncertain, the Company continues to manage its business and risk as appropriately as possible in light of the uncertainty.

2. Significant accounting policies

Basis of presentation and measurement

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and with interpretations of the International Financial Reporting Issues Committee ("IFRIC") for the periods presented. These financial statements comply with International Accounting Standards 34, *Interim Financial Reporting*.

These financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial instruments measured at fair value. In addition, these financial statements are prepared on an accrual basis, except for cash flow information. The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

Doseology Sciences Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2021 and 2020

(Unaudited - expressed in Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

Principles of consolidation

These financial statements include the financial statements of the Company and entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial operating policies of an entity so as to obtain benefits from its activities.

The financial statements include the accounts of Doseology Sciences Inc. and its wholly owned subsidiary, Dose Labs Inc. (formerly Pendulm Craft Corp.) (Note 3), collectively referred to as the "Company". Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing these financial statements.

Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the Company's management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about critical judgements 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 financial year are as follows:

Going concern

The Company's ability to execute its strategy by funding future working capital requirements requires judgement. Estimates and assumptions are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances. The factors considered by management are disclosed in Note 1.

Useful lives of property and equipment

Property and equipment are depreciated over their useful lives. Useful lives are based on management's estimate and using industry norms which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of loss and other comprehensive loss in specific periods.

Impairment

Long-lived assets, including equipment and intangibles, are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). Judgements and estimates are required in defining a CGU and determining the indicators of impairment and the estimates required to measure an impairment, if any.

Doseology Sciences Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2021 and 2020

(Unaudited - expressed in Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

Cash

Cash comprises of cash on deposit with financial institutions.

Inventories

Inventories of finished goods, work-in-process, raw materials and supplies and consumables are valued initially at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written down to net realizable value.

Property and equipment

Property and equipment are stated at historical cost net of accumulated depreciation and any impairment losses. Depreciation is recorded over the useful lives of the assets on a straight-line basis at the following annual rates:

| | |
|-------------------------|----------|
| Leasehold improvement | 10 years |
| Furniture and equipment | 10 years |
| Farm equipment | 5 years |
| Computer equipment | 3 years |

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for property and equipment and any changes arising from the assessment are applied by the Company prospectively.

Intangible assets

Intangible assets are stated at historical cost, net of accumulated amortization and impairment losses. Amortization is recorded on a straight-line basis over the useful lives of the assets on a straight-line basis at the following annual rate:

| | |
|------------------|----------|
| Cannabis license | 3 years |
| Trademark | 20 years |

Costs incurred to obtain a cannabis license are classified as intangible assets and are amortized over the license period.

The Company conducts an annual assessment of the residual balances and useful lives for impairment purposes and any changes arising from the assessment are applied by the Company prospectively.

Doseology Sciences Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2021 and 2020

(Unaudited - expressed in Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

Research and development costs

Expenditures related to research activities are recognized as an expense in the period in which they are incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, the Company can demonstrate all of the following:

- i. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ii. its intention to complete the intangible asset and use or sell it;
- iii. its ability to use or sell the intangible asset;
- iv. how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- v. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- vi. its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs are capitalized as soon as the above criteria are met. Where no internally generated intangible asset can be recognized, development expenditures are expensed in the period in which they are incurred.

After initial recognition, internally generated intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. They are amortized on a straight-line basis over their useful life, and an impairment loss is recognized in profit or loss when their recoverable amount is less than their net carrying amount.

Financial instruments

Recognition, classification and measurement

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

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

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

The Company has classified its receivables and due from related parties as financial assets and accounts payable and accrued liabilities as financial liabilities measured at amortized cost. Such assets and liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses. The effective interest method recognizes interest revenue or interest expense in profit and loss over the relevant period.

Doseology Sciences Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2021 and 2020

(Unaudited - expressed in Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

Financial instruments carried at FVTPL are recognized at their fair value at acquisition with any directly attributable transaction costs expensed as they are incurred. Subsequent measurement requires adjustment to fair value at the date of the statement of financial position, with any remeasurement gains or losses recognized in profit and loss as they arise. Instruments classified as FVTPL during the six months ended December 31, 2021 and 2020 include cash.

Financial instruments carried at FVTOCI are recognized at their fair value at acquisition inclusive of any directly attributable transactions costs. Subsequent measurement requires adjustment to fair value at the date of the statement of financial position, with any remeasurement gains or losses recognized in other comprehensive income or loss. The Company has no instruments classified as FVTOCI during the six months ended December 31, 2021 and 2020.

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

Basis of fair value

Financial instruments that are measured after initial recognition at fair value are grouped in levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2021, the carrying values of the Company's financial instruments approximate their fair values due to their short-term maturities.

The following table sets forth the Company's financial instruments measured at fair value on a recurring basis by level within the fair value hierarchy as at December 31, 2021 and June 30, 2021:

| | | Level 1 | Level 2 | Level 3 |
|------|-------------------|-------------|---------|---------|
| Cash | December 31, 2021 | \$2,621,521 | \$ - | \$ - |
| Cash | June 30, 2021 | \$3,733,524 | \$ - | \$ - |

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

Doseology Sciences Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2021 and 2020

(Unaudited - expressed in Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

Impairment of financial assets

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of loss and comprehensive loss.

Right of Use Assets and lease liabilities

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control an identified asset for a period of time in exchange for consideration.

Leases of right-of-use assets are recognized at the lease commencement date at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, and otherwise at the Company's incremental borrowing rate. At the commencement date, a right-of-use asset is measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, except where the lease contains a bargain purchase option, in which case a right-of-use asset is depreciated over the asset's useful life.

Doseology Sciences Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2021 and 2020

(Unaudited - expressed in Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

Accounting standards issued but not yet effective

The Company has reviewed the following new accounting pronouncements that have been issued but are not yet effective.

IAS 1 Classification of Liabilities as Current or Non-Current

In January 2021, the International Accounting Standards Board (“IASB”) issued a narrow scope amendment to IAS 1 – Classification of Liabilities as Current or Non-Current, which affects only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendment clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of settlement to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendment is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The implementation of this amendment is not expected to have a significant impact on the Company.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued an amendment to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The amendment introduces the definition of an accounting estimate and sets criteria to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. Management is currently assessing the impact of this amendment.

3. Acquisition

On July 24, 2020, the Company entered into an agreement with Pendulum Craft Corp. (“Pendulum”) whereby the Company agreed to purchase all of the outstanding common shares of Pendulum on a basis of one-half share of the Company for each outstanding Pendulum share (the “Transaction”). On September 23, 2020, Pendulum changed its name to Dose Labs Inc. (“Dose Labs”).

On September 15, 2020, the Company issued 4,098,170 common shares to the Pendulum shareholders, representing 93% of Pendulum shares tendered. On December 10, 2020, the Company issued 302,609 common shares to the Pendulum shareholders for the remaining 7% Pendulum shares that were tendered subsequent to the September 15, 2020 acquisition date. The Transaction was valued at \$376,884.

The Transaction is considered a related party transaction as Shane Gordon, a major shareholder, the sole director, and officer of Pendulum Craft as at the September 15, 2020 date of acquisition is also a shareholder and a former director and officer of the Company.

The acquisition of Pendulum has been accounted for as an asset acquisition in accordance with the guidance provided in IFRS 2, *Share-based Payments*, as Pendulum does not qualify as a business according to the definition in IFRS 3, *Business Combinations*. Accordingly, the acquisition does not constitute a business combination; rather it is treated as an equity-settled share-based payment by the Company issuing common shares to purchase the net assets of Pendulum.

Doseology Sciences Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2021 and 2020

(Unaudited - expressed in Canadian dollars, except share and per share amounts)

3. Acquisition (continued)

| Net assets acquired | \$ |
|--|----------------|
| Cash | 109,082 |
| Due from related party | 9,000 |
| Equipment | 27,974 |
| Investment ⁽¹⁾ | 35,000 |
| Leasehold improvements | 145,000 |
| Cannabis license costs (Note 8) | 59,000 |
| Trade accounts payable and accrued liabilities | (8,172) |
| | 376,884 |

Consideration paid as purchase price

| | |
|--|----------------|
| Common shares (4,400,779 shares at \$0.08 {rounded} per share) | 376,884 |
|--|----------------|

(1) Dose Labs sold mining equipment to Plexus Technology Corp. ("Plexus") on April 27, 2019 in exchange for 100,000 shares of Plexus valued at \$35,000. On December 22, 2020, the Company sold the Plexus shares back to Plexus for the same value at \$35,000.

4. Accounts Receivable

| | December 31, 2021 \$ | June 30, 2021 \$ |
|--------------------------------|-------------------------------------|---------------------------------|
| Goods and services tax credits | 55,171 | 26,489 |
| Other | 13,713 | 2,000 |
| | 68,884 | 28,489 |

5. Prepaid expenses and deposits

| | December 31, 2021 \$ | June 30, 2021 \$ |
|--------------------------------|-------------------------------------|---------------------------------|
| Deposit on rent | 5,000 | 5,000 |
| Marketing and consulting | 1,010,125 | 1,033,750 |
| Insurance | 1,125 | 5,032 |
| Deposit on inventory purchases | - | 34,806 |
| Deposit on equipment | 24,189 | 16,742 |
| Retainers and others | 16,706 | - |
| | 1,057,145 | 1,095,330 |

Doseology Sciences Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2021 and 2020

(Unaudited - expressed in Canadian dollars, except share and per share amounts)

6. Inventories

| | December 31, 2021 \$ | June 30, 2021 \$ |
|---|----------------------------|------------------------|
| Finished products – Functional mushroom and tinctures | 162,377 | 117,992 |
| Packaging and labels | 12,056 | 11,426 |
| | 174,433 | 129,238 |

7. Property and equipment

| | Leasehold improvements | Furniture and equipment | Farm equipment | Computer equipment | Right of use assets | Total |
|------------------------------------|---------------------------|----------------------------|-------------------|-----------------------|------------------------|--------------------|
| Cost | | | | | | |
| Balance - June 30, 2021 | \$268,320 | \$29,398 | \$15,250 | \$5,615 | \$679,246 | \$997,829 |
| Additions | - | 1,663 | 4,465 | - | 148,192 | 154,320 |
| Disposals | - | (892) | (169) | (2,261) | - | (3,322) |
| Balance - December 31, 2021 | \$268,320 | \$30,169 | \$19,546 | \$3,354 | \$827,438 | \$1,148,827 |
| Accumulated depreciation | | | | | | |
| Balance - June 30, 2021 | -\$18,700 | -\$2,327 | -\$961 | -\$464 | -\$67,925 | -\$90,377 |
| Depreciation | (13,717) | (1,558) | (1,520) | (749) | (50,428) | (67,972) |
| Disposals | - | 98 | 37 | 654 | - | 789 |
| Balance - December 31, 2021 | -\$32,417 | -\$3,787 | -\$2,444 | -\$559 | -\$118,353 | -\$157,560 |
| Carrying amounts | | | | | | |
| Balance - June 30, 2021 | \$249,620 | \$27,071 | \$14,289 | \$5,151 | \$611,321 | \$907,452 |
| Balance - December 31, 2021 | \$235,903 | \$26,382 | \$17,102 | \$2,795 | \$709,085 | \$991,267 |

8. Intangible assets

| | Cannabis | Trademark | Total |
|------------------------------------|------------------|-----------------|------------------|
| Cost | | | |
| Balance - June 30, 2021 | \$59,000 | \$24,530 | \$83,530 |
| Expensed during the period | - | (9,417) | (9,417) |
| Balance - December 31, 2021 | \$59,000 | \$15,113 | \$74,113 |
| Accumulated amortization | | | |
| Balance - June 30, 2021 | -\$2,458 | \$0 | -\$2,458 |
| Amortization during the period | (9,833) | - | (9,833) |
| Balance - December 31, 2021 | -\$12,291 | \$0 | -\$12,291 |
| Carrying amounts | | | |
| Balance - June 30, 2021 | \$56,542 | \$24,530 | \$81,072 |
| Balance - December 31, 2021 | \$46,709 | \$15,113 | \$61,822 |

The Company received a cannabis license issued by Health Canada on May 14, 2021, which expires on May 14, 2024 (Note 3).

Doseology Sciences Inc.

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For the three and six months ended December 31, 2021 and 2020

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9. Accounts payable and accrued liabilities

| | December 31, 2021 \$ | June 30, 2021 \$ |
|------------------------|----------------------------|------------------------|
| Accounts payable | 73,286 | 60,837 |
| Accrued liabilities | 20,000 | 20,000 |
| Due to related parties | 5,277 | 335,758 |
| | <u>98,563</u> | <u>416,595</u> |

10. Lease Liabilities

The Company has two lease liabilities and details for them can be found below:

- a) One relates to the lease of a farm property which commenced on July 1, 2020 for an initial 10-year term expiring on June 30, 2030 and with an option to renew for an additional 5 years. The Lease liability has been calculated using an incremental borrowing rate of 10% per annum.
- b) The second relates to the lease of a commercial office property which commenced on September 1, 2021 for an initial 5-year term expiring on August 31, 2024 and with an option to renew for an additional 5 years. The Lease liability has been calculated using an incremental borrowing rate of 10% per annum.

| | December 31, 2021 \$ | June 30, 2021 \$ |
|--|----------------------------|------------------------|
| Lease liabilities | | |
| Balance, beginning | 687,544 | - |
| Addition | 148,192 | 679,246 |
| Less: lease payments | (57,134) | (60,000) |
| Interest accretion | 39,020 | 68,298 |
| Balance, ending | 817,622 | 687,544 |
| Less: Lease liabilities, current portion | (89,646) | (28,529) |
| Lease liabilities, long-term portion | <u>727,976</u> | <u>659,015</u> |

The Company is committed to the minimum lease payments as follows:

| | December 31, 2021 \$ | June 30, 2021 \$ |
|------------------------------------|----------------------------|------------------------|
| Maturity analysis | | |
| Less than one year | 167,707 | 96,000 |
| One year to five years | 705,331 | 480,000 |
| More than five years | 300,000 | 480,000 |
| Total undiscounted lease liability | <u>1,173,038</u> | <u>1,056,000</u> |

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11. Transactions with related parties

Key management personnel include directors and officers who have the authority and responsibility for planning, directing, and controlling the activities of the Company. The compensation paid to these key management personnel for the three and six months ended December 31, 2021 and 2020 is as below:

| | Three months ended | | Six months ended | |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| | December 31, 2021 | December 31, 2020 | December 31, 2021 | December 31, 2020 |
| | \$ | \$ | \$ | \$ |
| Management fees | - | 87,000 | 24,000 | 152,500 |
| Professional fees | 6,040 | 47,419 | 15,397 | 47,419 |
| Listing expenses | 98,178 | - | 106,755 | - |
| Share-based compensation | 31,910 | - | 47,128 | - |
| Lease payments | 24,000 | 15,000 | 48,000 | 30,000 |
| Total | 160,128 | 149,419 | 241,280 | 229,919 |

During the three months ended December 31, 2021, the Company incurred \$6,040 (December 31, 2020 - \$47,419) and \$98,178 (December 31, 2020 - \$nil) in professional fees and listing expenses, respectively to a law firm where Scott Reeves, a director and corporate secretary of the Company, is a partner. During the six months ended December 31, 2021, the Company paid professional fees and listing expenses of \$15,397 and \$106,755 respectively. Included in accounts payable as at December 31, 2021 is \$1,914 owing to Scott's law firm.

During the three months ended December 31, 2021, the Company paid \$24,000 (December 31, 2020 - \$15,000) to Sungrown Organics Inc., for the rental of the Vernon facility, a company which is 50% controlled by Shane Gordon, a former officer and director of the Company. During the six months ended December 31, 2021, the Company paid \$48,000. As part of this rental arrangement, Sungrown Organics Inc., owed the Company \$13,900 as of June 30, 2021.

During the three months ended December 31, 2021, the Company incurred share-based compensation of \$31,910 (December 31, 2020 - \$nil) to directors and officers. During the six months ended December 31, 2021, the Company paid \$47,128.

12. Share capital

On April 27, 2021, the directors and shareholders of the Company approved the consolidation of its common shares on the basis of one (1) post-consolidation share for every two (2) pre-consolidation shares held. All references to shares and per share amounts have been retroactively restated to reflect the share consolidation.

As at December 31, 2021, the Company has 22,210,417 common shares in escrow. A total of 26,700,780 shares were escrowed due to the Company listing on the CSE. The escrow release schedule is summarized as follows:

| Number of shares | Escrow release |
|-------------------------|-----------------------|
| 1,720,575 | February 15, 2022 |
| 3,144,830 | May 15, 2022 |
| 1,720,576 | August 15, 2022 |
| 3,144,830 | November 15, 2022 |
| 9,631,098 | Calendar year 2023 |
| 2,848,508 | Calendar year 2024 |
| 22,210,417 | |

Doseology Sciences Inc.

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12. Share capital (continued)

Authorized

Unlimited number of voting common shares without par value.

Shares issued during the six months ended December 31, 2021

On October 29, 2021, the Company obtained a receipt for its final non-offering, long form prospectus from the British Columbia Securities Commission. Concurrent with its prospectus filing, the Company also received approval from the Canadian Securities Exchange (the "CSE") to list the Company's common shares on the CSE. The approval resulted in the Company's previously issued 11,885,000 Subscription Receipts (aggregate gross proceeds of \$2,377,000) to be automatically converted, without further payment, into 5,942,500 units.

Each of the converted units consisted of one common share and one share purchase warrant exercisable into a common share at \$0.80 per share until March 26, 2023. The share purchase warrants were fair-valued at \$89,606 calculated using the Black Scholes Option Pricing Model with the following grant-date assumptions: grant date stock price \$0.10; expected life, 2 years; expected volatility, 110%; risk free rate, 0.2%; and expected dividends, 0%. The residual amount of \$2,287,394 was attributed to share capital. As part of the above noted Subscription Receipts conversion, the Company paid finders' fees of \$74,800 in cash, issued 100,300 common shares valued at \$10,300 and 203,800 broker warrants valued at \$10,822.

Shares issued for the year ended June 30, 2021

On July 15, 2020, the Company entered into an agreement with Pendulm to acquire all of the outstanding common shares of Pendulm (Note 3). 4,098,170 and 302,609 common shares were issued on September 15, 2020 and December 10, 2020, respectively. These shares had a fair value of \$376,884.

On November 10, 2020, the Company issued 20,000 shares pursuant to a debt settlement agreement for an amount payable of \$8,000. The shares had a fair value of \$2,000, as a result, a gain on debt settlement of \$6,000 was recognized.

On December 18, 2020, the Company issued 6,600,000 shares in a non-brokered private placement at \$0.10 per share for proceeds of \$660,000.

On December 22, 2020, the Company issued 500,000 units in a non-brokered private placement at \$0.40 per unit for proceeds of \$200,000. Each unit consists of one common share and one warrant. Each warrant is exercisable into one common share at \$0.80 per share until December 21, 2022. The estimated fair value of the warrants of \$7,500 was calculated using the Black Scholes Option Pricing Model with the following grant-date assumptions: grant date stock price \$0.10; expected life, 2 years; expected volatility, 110%; risk free rate, 0.2%; and expected dividends, 0%. The residual amount of \$192,500 was attributed to the shares.

On January 1, 2021, the Company issued 3,000,000 shares in a non-brokered private placement for proceeds of \$300,000.

On February 1, 2021, the Company repurchased 2,750,000 shares for total cost of \$275,000.

On February 8, 2021, the Company issued 4,686,420 units in a brokered private placement at \$0.40 per unit for proceeds of \$1,874,568. Each unit consists of one common share and one warrant. Each warrant is exercisable into one common share at \$0.80 per share until February 8, 2023. The estimated fair value of the warrants of \$70,296 was calculated using the Black Scholes Option Pricing Model with the following grant-date assumptions: grant date stock price \$0.10; expected life, 2 years; expected volatility, 110%; risk free rate, 0.2%; and expected dividends, 0%. The residual amount of \$1,804,272 was attributed to the shares.

The Company incurred share issue costs of \$36,947 during the year ended June 30, 2021.

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13. Reserves

Reserves includes the accumulated fair values of stock options recognized as share-based compensation and the fair value of warrants. Reserves is increased by the fair values of these items on vesting.

| | Warrant reserve \$ | Stock option reserve \$ | Total \$ |
|---------------------------------------|--------------------------|-------------------------------|----------------|
| Balance - June 30, 2020 | - | - | - |
| Fair value of share purchase warrants | 77,796 | - | 77,796 |
| Fair value of broker warrants | 10,822 | - | 10,822 |
| Fair value of stock options | - | 19,830 | 19,830 |
| Balance - June 30, 2021 | 88,618 | 19,830 | 108,448 |
| Fair value of share purchase warrants | 89,606 | - | 89,606 |
| Fair value of stock options | - | 61,655 | 61,655 |
| Balance - December 31, 2021 | 178,224 | 81,485 | 259,709 |

Stock options

On April 16, 2021, a total of 3,050,000 stock options were granted to directors, officers, and employees with an exercise price of \$0.40 per share and an expiry date of April 16, 2026. The fair value of the options granted was calculated using the Black-Scholes pricing model with the following assumptions: stock price of \$0.10, expected life of 3.5 years, expected volatility of 110%, dividend yield of 0%, risk-free interest rate of 0.61%. The Company estimates the volatility based on historical share prices of comparable companies.

| | Number of options | Weighted average exercise price (\$) |
|------------------------------------|----------------------|---|
| Balance - June 30, 2020 | - | - |
| Issued | 3,050,000 | 0.40 |
| Balance - June 30, 2021 | 3,050,000 | 0.40 |
| Cancelled | (100,000) | (0.40) |
| Issued | 400,000 | 0.40 |
| Balance - December 31, 2021 | 3,350,000 | 0.40 |

On October 25, 2021, the Company cancelled 100,000 options to an officer (included in the 3,050,000 grant noted above) and then subsequently re-issued 400,000 incentive stock options to an officer with an exercise price of \$0.40 per share, which vested immediately.

During the six months ended December 31, 2021, the Company recognized share-based compensation of \$61,655 (December 31, 2020 - \$nil).

Doseology Sciences Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2021 and 2020

(Unaudited - expressed in Canadian dollars, except share and per share amounts)

13. Reserves (continued)

Warrants

Warrant transactions are summarized as follows:

| | Number of warrants | Weighted average exercise price (\$) |
|------------------------------------|-----------------------|---|
| Balance - June 30, 2020 | 5,000,000 | 0.16 |
| Issued | 5,390,220 | 0.80 |
| Balance - June 30, 2021 | 10,390,220 | 0.49 |
| Issued | 5,942,500 | 0.80 |
| Balance - December 31, 2021 | 16,332,720 | 0.60 |

As at December 31, 2021, the Company's outstanding warrants were as follows:

| Number of warrants | Exercise price (\$ per share) | Expiry date | Weighted average remaining life (years) |
|-----------------------|----------------------------------|-------------------|--|
| 5,000,000 | 0.16 | June 1, 2025 | 3.42 |
| 30,000 | 0.80 | March 31, 2023 | 1.25 |
| 173,800 | 0.80 | March 26, 2023 | 1.23 |
| 4,686,420 | 0.80 | February 8, 2023 | 1.11 |
| 500,000 | 0.80 | December 22, 2022 | 0.98 |
| 5,942,500 | 0.80 | March 26, 2023 | 1.23 |
| 16,332,720 | 0.60 | | 1.86 |

14. Financial instruments

Fair value

IFRS 13, *Fair Value Measurement*, establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. IFRS 13 prioritizes the inputs into three levels that may be used to measure fair value:

The following table summarizes the carrying and fair value of the Company's financial instruments. The fair values of these financial instruments approximate their carrying values mostly because of their current nature.

| | December 31, 2021 \$ | June 30, 2021 \$ |
|--|----------------------------|------------------------|
| Cash | 2,621,521 | 3,733,524 |
| Receivables | 68,884 | 28,489 |
| Due from related parties | - | 15,096 |
| Accounts payable and accrued liabilities | 98,563 | 416,595 |
| Lease liability | 817,622 | 687,544 |

Interest income, interest expense, and gains and losses from financial assets and financial liabilities classified at amortized cost are recognized in the statement of loss and comprehensive loss.

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Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited - expressed in Canadian dollars, except share and per share amounts)

14. Financial instruments (continued)

Risks arising from financial instruments and risk management

a) Credit risk

Credit risk is the risk of loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

b) Foreign exchange risk

Foreign exchange risk arises from fluctuations in the future cash flows of a financial instrument because of changes in foreign exchange rates. The Company is not subject to foreign exchange rate risk as predominately all its transactions occur in Canadian dollars.

c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The observable impacts on the fair value and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in profit or loss from financial instruments whose cash flows are determined with reference to floating interest rates and potential changes in value of financial instruments whose cash flows are fixed in nature. The Company does not have any financial liabilities with floating interest rates and accordingly is not exposed to cash flow risk.

d) Liquidity and funding risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt or equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at December 31, 2021, the Company had a cash balance of \$2,621,521 to settle the current liabilities of \$188,209 which are due on demand or within 1 year.

Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions.

15. Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders (Note 1). The capital structure of the Company consists of equity comprising issued share capital, reserves, and deficit.

The Company manages its capital structure and adjusts it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other financing activities as deemed appropriate under specific circumstances.

The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged for the six months ended December 31, 2021.