Consolidated Financial Statements
(Expressed in Canadian Dollars)

KANE BIOTECH INC.

Three and six months ended June 30, 2023 and 2022
(Unaudited)

In accordance with National Instruments 51-102 released by the Canadian Securities Administrators, the Company discloses its auditors have not reviewed the unaudited financial statements for the three and six months ended June 30, 2023 and 2022.

KANE BIOTECH INC.

Consolidated Statement of Financial Position

	Note		June 30, 2023		December 31, 2022
Assets					
Current assets:					
Cash and cash equivalents		$	1,146,138	$	1,104,901
Trade and other receivables	6,17		336,774		582,089
Inventory	7		865,242		763,471
Capital contributions receivable - current	4		491,614		475,261
Other current assets			228,854		171,023
Total current assets			3,068,622		3,096,745
Non-current assets:					
Property and equipment	8		1,249,556		1,252,469
Intangible assets	9		804,730		826,452
Capital contributions receivable	4		459,452		444,169
Total non-current assets			2,513,738		2,523,090
Total assets		$	5,582,360	$	5,619,835
Liabilities and Shareholders' Deficit					
Current liabilities:					
Accounts payable and accrued liabilities	10	$	1,610,695	$	1,847,695
Contract liabilities - current	5		955,965		207,644
Due to related party	11		8,066		8,066
Loan payable	12(a)		5,218,712		4,000,000
Government loans - current	12(b)		316,075		173,911
Note payable - current	13		39,660		-
Lease liability - current	14		107,413		104,246
Total current liabilities			8,256,586		6,341,562
Non-current liabilities:					
Contract liabilities	5		1,170,691		837,301
Government loans	12(b)		1,457,524		1,595,295
Note payable	13		14,198		-
Lease liability	14		928,878		983,388
Total non-current liabilities			3,571,291		3,415,984
Shareholders' Deficit					
Share capital	15(b)		23,198,518		23,132,932
Contributed surplus			7,377,713		7,444,668
Warrants	15(e)		106,152		-
Minority interest in Stem Animal Health Inc.			2,245,912		2,384,862
Deficit			(39,173,812)		(37,100,173)
Total			(6,245,517)		(4,137,711)
Going concern	2(c)				
Commitments and contingencies	16				
Subsequent events	21				
Total liabilities and shareholders' deficit		$	5,582,360	$	5,619,835

The notes on pages 5 to 28 are an integral part of these consolidated financial statements.

KANE BIOTECH INC.

Consolidated Statement of Loss and Comprehensive Loss

	Note		Three months ended June 30, 2023		Three months ended June 30, 2022		Six months ended June 30, 2023		Six months ended June 30, 2022
Revenue									
License	**4,5**	**$**	**83,027**	$	500,225	**$**	**152,438**	$	536,097
Royalty			**89,850**		51,770		**158,619**		99,248
Sales of goods and services			**484,433**		287,584		**1,023,870**		769,668
Total Revenue			**657,310**		839,579		**1,334,927**		1,405,013
Cost of sales-sales of goods and services	**7**		**326,805**		200,364		**659,375**		582,176
Gross Profit			**330,505**		639,215		**675,552**		822,837
Expenses									
General and administration			**805,906**		951,877		**1,858,742**		2,020,125
Research	**17**		**60,323**		409,429		**368,279**		761,278
			866,229		1,361,306		**2,227,021**		2,781,403
Loss from operations			**(535,724)**		(722,091)		**(1,551,469)**		(1,958,566)
Other expenses (income):									
Finance income			**(16,864)**		(25,858)		**(32,548)**		(51,375)
Finance costs			**431,181**		155,946		**671,439**		296,924
Fair value adjustment - government loans			**-**		(60,502)		**(3,770)**		(262,577)
Foreign exchange loss			**17,864**		2,918		**25,999**		5,221
Net other expenses (income)			**432,181**		72,504		**661,120**		(11,807)
Loss and comprehensive loss for the period		**$**	**(967,905)**	$	(794,595)	**$**	**(2,212,589)**	$	(1,946,759)
Loss and comprehensive loss attributable to:									
Shareholders			**(872,537)**		(899,991)		**(2,073,639)**		(2,008,583)
Minority interest			**(95,368)**		105,396		**(138,950)**		61,824
Loss and comprehensive loss for the period			**(967,905)**		(794,595)		**(2,212,589)**		(1,946,759)
Basic and diluted loss per share for the period	**15(f)**	**$**	**(0.01)**	$	(0.01)	**$**	**(0.02)**	$	(0.02)

The notes on pages 5 to 28 are an integral part of these consolidated financial statements.

KANE BIOTECH INC.

Consolidated Statement of Changes in Deficit

	Note	Share Capital	Contributed Surplus	Warrants	Minority Interest	Deficit	Total
Balance as of January 1, 2022		$ 22,156,228	$ 5,505,684	$ 1,662,385	$ 2,318,970	$ (33,210,281)	$ (1,567,014)
Income (loss) and comprehensive income (loss) for the period					65,892	(3,889,892)	(3,824,000)
Transactions with owners, recorded directly in equity							
Issuance of common shares	15(b)	973,704	-	-	-	-	973,704
Share based payments	15(c,d)	-	279,599	-	-	-	279,599
Restricted share units redeemed	15(d)	3,000	(3,000)	-	-	-	-
Warrants expired	15(e)	-	1,662,385	(1,662,385)	-	-	-
Total transactions with owners		976,704	1,938,984	(1,662,385)	-	-	1,253,303
Balance as of December 31, 2022		$ 23,132,932	$ 7,444,668	$ -	$ 2,384,862	$ (37,100,173)	$ (4,137,711)
Loss and comprehensive loss for the period					(138,950)	(2,073,639)	(2,212,589)
Transactions with owners, recorded directly in equity							
Share based payments	15(c,d)	-	(1,369)	-	-	-	(1,369)
Warrants granted	15(e)	-	-	106,152	-	-	106,152
Restricted share units redeemed	15(d)	65,586	(65,586)	-	-	-	-
Total transactions with owners		65,586	(66,955)	106,152	-	-	104,783
Balance as of June 30, 2023		$ 23,198,518	$ 7,377,713	$ 106,152	$ 2,245,912	$ (39,173,812)	$ (6,245,517)

The notes on pages 5 to 28 are an integral part of these consolidated financial statements.

KANE BIOTECH INC.

Consolidated Statement of Cash Flows

	Note		Three months ended June 30, 2023		Three months ended June 30, 2022		Six months ended June 30, 2023		Six months ended June 30, 2022
Cash provided by (used in):									
Operating activities:									
Loss and comprehensive loss for the period		**$**	**(967,905)**	$	(794,595)	**$**	**(2,212,589)**	$	(1,946,759)
Adjustments for:									
Acquired manufacturing equipment expensed	**13**		**-**		-		**17,815**		-
Depreciation of property and equipment	**8**		**45,252**		45,844		**88,825**		91,219
Amortization of intangible assets	**9**		**18,299**		28,198		**37,471**		41,706
Derecognition of property and equipment	**8**		**1,211**		-		**1,211**		-
Accretion income	**4**		**(15,952)**		(23,154)		**(31,636)**		(45,919)
Interest on loans, note payable and finance leases	**12,13,14**		**321,632**		154,420		**490,479**		294,065
Warrant expense	**15(e)**		**106,152**		-		**106,152**		-
Fair value adjustment - government loan	**12(b)**		**-**		(60,502)		**(3,770)**		(262,577)
Share based compensation	**15(c,d)**		**33,959**		86,297		**(1,369)**		202,990
Change in the following:									
Trade and other receivables			**176,611**		(95,041)		**245,315**		107,698
Inventory			**(66,985)**		(82,522)		**(101,771)**		(57,051)
Other current assets			**(60,886)**		19,363		**(57,831)**		(16,049)
Accounts payable and accrued liabilities			**(342,634)**		(275,438)		**(237,000)**		(189,660)
Contract liabilities	**5**		**1,133,622**		264,124		**1,081,711**		228,251
Cash provided by (used) in operating activities			**382,376**		(733,006)		**(576,987)**		(1,552,086)
Financing activities:									
Deposits - private placement	**15(b)**		**-**		(340,000)		**-**		-
Issuance of common shares	**15(b)**		**-**		973,704		**-**		973,704
Interest paid on loans and finance leases	**12,14**		**(15,803)**		(62,068)		**(143,288)**		(81,584)
Repayment of loan payable	**12(a)**		**-**		(200,000)		**-**		(400,000)
Proceeds from loan payable	**12(a)**		**-**		1,860,143		**1,000,000**		1,860,143
Proceeds from long-term government loans	**12(b)**		**-**		163,967		**10,000**		675,303
Repayment of long-term government loans	**12(b)**		**(126,000)**		-		**(126,000)**		-
Repayment of lease liability	**14**		**(25,864)**		(36,123)		**(51,343)**		(70,104)
Cash provided by (used in) financing acivities			**(167,667)**		2,359,623		**689,369**		2,957,462
Investing activities:									
Purchase of property and equipment	**8**		**(52,706)**		(4,221)		**(55,396)**		(7,256)
Additions to intangible assets	**9**		**(5,943)**		(5,154)		**(15,749)**		(18,032)
Cash used in investing activities			**(58,649)**		(9,375)		**(71,145)**		(25,288)
Increase in cash			**156,060**		1,617,242		**41,237**		1,380,088
Cash, beginning of period			**990,078**		915,936		**1,104,901**		1,153,090
Cash, end of period		**$**	**1,146,138**	$	2,533,178	**$**	**1,146,138**	$	2,533,178

1. Reporting entity:

Kane Biotech Inc. and its subsidiary STEM Animal Health Inc. (the "Company") is a biotechnology company engaged in the research, development and commercialization of technologies and products that prevent and remove microbial biofilms. The Company is domiciled and incorporated in Canada. Its registered office is 290-100 Innovation Drive, Winnipeg, Manitoba, Canada, R3T 6G2.

2. Basis of preparation of consolidated financial statements:

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Board of Directors on August 28, 2023.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

- financial instruments at fair value at the issue date
- equity settled share-based payment awards are measured at fair value at the grant date

(c) Going concern

These consolidated financial statements have been prepared using IFRSs that are applicable to a going concern, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is material uncertainty about the appropriateness of the use of the going concern assumption because the Company has experienced operating losses and net cash outflows from operations since inception and has not yet achieved profitability from the commercialization of its products which casts significant doubt on the Company’s ability to continue as a going concern. For the six months ended June 30, 2023, the Company had a loss and comprehensive loss of $2,212,589 and negative cash flow from operating activities of $576,987, and as of that date had a working capital deficit of $5,187,964 and deficit of $39,173,812.

The Company's future operations are completely dependent upon its ability to negotiate collaboration or licence agreements with upfront and milestone payments as well as royalties, generate product and services revenue, obtain grant funding and/or secure additional funds. While the Company is striving to achieve this, there is no assurance that such sources of funds will be available or obtained on favourable terms. If the Company cannot negotiate collaboration or licence agreements, generate product and services revenue, obtain grant funding, or if it cannot secure additional financing on acceptable terms, the Company will have to consider additional strategic alternatives. These may include, among other strategies, exploring the monetization of certain tangible and intangible assets as well as seeking to license assets, potential asset divestitures, winding up, dissolution or liquidation of the Company.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit the Company to continue as a going concern.

These consolidated financial statements do not reflect adjustments in the carrying values of the Company’s assets and liabilities, revenue and expenses, and the statement of financial position classifications used, that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

(d) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented has been rounded to the nearest dollar except where indicated otherwise.

2. Basis of preparation of consolidated financial statements (continued):

(e) Use of estimates and judgments

The preparation of these financial statements in conformity with IFRSs requires management to make significant judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue 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 estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial years are included in the following notes:

- Note 2(c) Going concern. The determination that the Company will continue as a going concern.
- Note 3(a) Revenue recognition. The determination of the exclusive right to access a license representing the primary performance obligation in the Company's license and distribution agreements as well as when milestone revenue becomes highly probable. The determination of the duration of a contract where renewal terms may exist.
- Note 3(c) Fair value of long-term government loans. The determination of the effective interest rate for measuring the fair value of loan advances when received and the estimated repayment term.
- Note (3d) Inventory. The determination of net realizable value for the purpose of assessing inventory impairment.
- Note 3(f)(i) Research and development costs. The determination of research and development expenditures that meet the criteria for capitalization.
- Note 3(g)(i) Impairment of financial assets. The calculation of expected credit losses related to trade and other receivables and loan receivable.
- Note 3(g)(ii) Impairment of non-financial assets. The determination that the Company has a single cash generating unit as the Company cannot clearly distinguish cash inflows that are largely independent of other cash flows specific to certain assets or technologies. The determination that the fair value of future net cash flows related to the Company's non-financial assets exceeds their carrying value per the financial statements.
- Note 3(h) Employee benefits. The estimated fair value of variable compensation for a key employee of STEM.
- Note 3(h)(ii) and Note 15(c), (d) and (e) Share-based payment transactions. The determination of the risk-free interest rate and expected volatility with respect to the assumptions used in the Black-Scholes option pricing model or Barrier option pricing model for the purpose of determining stock options expense for employee share-based compensation. The determination that the fair value of restricted share units is the closing price of the Company’s stock on the grant date.
- Note 3(m) Leases. The determination of the incremental borrowing rate where there is no rate implicit in the lease, by way of reference to the Company's incremental borrowing rate for a loan of similar security and term. The determination of the lease term when optional renewal periods exist and the determination of variable lease payments that should be excluded from the calculation of the right of use asset and lease liability.
- Note 4 Basis of consolidation. The determination of control of Stem Animal Health Inc.

(f) Basis of consolidation

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in these financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of acquired subsidiaries to conform their accounting policies to those of the Company.

2. Basis of preparation of consolidated financial statements (continued):

Intercompany balances and transactions, and any realized or unrealized revenue and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

The Company has one subsidiary, STEM Animal Health Inc., which is 66.66% owned by the Company. The principal place of business is Winnipeg, Manitoba, Canada, and its functional currency is Canadian dollars.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Revenue recognition

The Company has consistently applied accounting policies in accordance with IFRS 15 *Revenue from Contracts with Customers (“IFRS 15”)* to all periods presented in these consolidated financial statements. These policies are as follows:

(i) License and distribution agreement revenue

The Company has entered into exclusive license and distribution agreements for specific territories for which there may be non-refundable upfront payments, milestone payments based on achievement of certain milestones and royalties on related sales. Under the terms of these agreements in addition to the exclusive license rights, the Company may provide support, transfer of knowhow, marketing materials and efforts to increase the value of the license through introduction of new products or industry certifications. As these additional activities are not distinct and separable from the exclusive license rights, the primary performance obligation under the agreements has been determined to be a right to access the exclusive license. As a result, where non-refundable upfront payments are received or receivable, they are recognized over time on a straight-line basis over the contractual life of the agreement. Where milestone payments represent variable consideration, they are recognized as an adjustment to the transaction price of the contract when it is highly probable that a significant reversal of cumulative revenue recognized will not occur.

Royalties not subject to guaranteed minimum royalties are recognized as the related sales occur. Where guaranteed minimum annual royalties apply, the Company recognizes the minimum guaranteed royalty revenue over time and recognizes excess sales royalties as the related sales occur.

Sales based milestone payments are recognized as revenue only when the applicable sales target has been met.

(ii) Sales of goods and services

Revenue from the sales of goods and services, net of discounts, is recognized when control of those goods has been transferred to the customer or the related services have been rendered.

(b) Foreign currency transactions

Transactions in foreign currencies are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated at the exchange rate at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Financial instruments

IFRS 9 Financial instruments contains three principal classification categories for financial instruments: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”). IFRS 9 bases the classification of financial instruments on the contractual cash flow characteristics and the company’s business model for managing the financial asset.

Cash and cash equivalents, trade and other receivables, loan receivable, accounts payable and accrued liabilities, and interest and non-interest-bearing debt are all classified as amortized cost under this standard.

3. Significant accounting policies (continued):

The government loans are initially measured at fair value based on management's best estimate of the effective interest rate at initial recognition. The fair value of the Prairies Economic Development Canada ("PrairiesCan") loan is also based on the loan being repayable over five years starting in April 2023. The loans are subsequently measured at amortized cost.

The Company does not adjust for modifications to share purchase warrants classified as equity instruments that are not share based payments.

(d) Inventory

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method for the Company's subsidiary, STEM Animal Health Inc. and the first in first out (FIFO) method for its human health product inventory. The cost of finished goods and work in progress comprises raw materials, direct labour, and other direct costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Obsolete, redundant, and slow-moving inventories are identified and written down to net realizable values.

(e) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statement of loss and comprehensive loss in the period in which they are incurred.

(ii) Depreciation

Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment in a manner which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives and depreciation method for the current and comparative periods are as follows:

Asset	Basis	Rate
Computer and office equipment	Diminishing balance	20-30%
Scientific and manufacturing equipment	Diminishing balance	20%
Right-of-use assets	Straight-line	Over the term of the lease

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if necessary.

(f) Intangible assets

(i) Research and development

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

Development activities involve a plan or design to produce 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 to use or sell the asset. No development costs have been capitalized to date.

3. Significant accounting policies (continued):

(ii) Patents and trademarks

Costs incurred in obtaining a patent are capitalized and are amortized on a straight-line basis over the legal life of the respective patent once the patent has been issued. Trademarks have an indefinite life and are not amortized. Costs incurred in successfully obtaining a patent or trademark are measured at cost less accumulated amortization and accumulated impairment losses. The cost of servicing the Company's patents and trademarks is expensed as incurred.

(iii) Subsequent expenditures

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the consolidated statement of loss and comprehensive loss as incurred.

(g) Impairment

(i) Financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

If such evidence exists, the Company recognizes an impairment loss for financial assets. The carrying amount of the asset is reduced by this amount either directly or indirectly using an allowance account.

(ii) Non-financial assets

The carrying amount of long-lived non-financial assets, including intangible assets and property and equipment, is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite lives and intangible assets not yet put into use are evaluated for impairment at least annually.

An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from observable market prices less incremental costs. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market size and market growth trends, strength of customer demand and degree of variability in cash flows, as well as other factors, are considered when making assumptions about future cash flows and the appropriate discount rate. A change in any of the significant assumptions of estimates used to evaluate the underlying assets could result in a material change to the results of operations.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed, to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment had been recognized. Write-downs because of impairment are recognized in research expense in the consolidated statement of loss and comprehensive loss.

(h) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are expensed as the related services are provided.

3. Significant accounting policies (continued):

(ii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as a personnel expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions. In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment.

(i) Government grants

Grants are recognized in the consolidated statement of loss and comprehensive loss as deductions from the related expenditures when the grants become receivable based on the related conditions on criteria being met.

Grants that compensate the Company for the cost of an asset are recognized in the consolidated statement of loss and comprehensive loss as a reduction of expenses on a systematic basis over the useful life of the asset.

(j) Finance income and finance costs

Finance income comprises interest income on funds invested which is recognized as it accrues in profit or loss using the effective interest method. Finance costs are comprised of accretion expense on long-term borrowings, which are recognized in profit or loss using the effective interest method, as well as other costs incurred to secure loan financing. Foreign currency gains and losses are reported on a net basis.

(k) Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. No deferred tax assets have been recognized to date.

Refundable scientific research and development tax credits, which are earned as a result of incurring qualifying research and development expenditures, are recorded as a reduction of the related expense when there is reasonable assurance that they will be realized. Non-refundable scientific research and development tax credits, which are also earned on qualifying research and development expenditures, are not recorded in the financial statements.

3. Significant accounting policies (continued):

(l) Earnings (loss) per share

The Company presents basic earnings per share (EPS) data for its common voting shares. Basic EPS is calculated by dividing the profit or loss attributable to common voting shareholders of the Company by the weighted average number of common voting shares outstanding during the period, adjusted for own shares held. Common voting share equivalents have been excluded from the calculation of diluted loss per share as their effect is anti-dilutive.

(m) Leases

The Company assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right-of-use asset and lease liability are recognized at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimated restoration costs, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the implicit interest rate in the lease. If the rate cannot be readily determined, the Company's incremental rate of borrowing is used.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate or the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(n) New standards and interpretations, adopted and not yet adopted

Standards and interpretations adopted

IAS 1 Presentation of Financial Statements has been amended for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted. The update sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows. Effective January 1, 2023, the Company adopted the Amendment of IAS 1 with no impact on its consolidated financial statements.

IAS 1 and IFRS Practice Statement 2 has been amended for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted. The update sets out the requirements for disclosure of accounting policies, including an entity should discloses its material accounting policies instead of its significant accounting policies, and how an entity can identify a material accounting policy. Effective January 1, 2023, the Company adopted the Amendment of IAS 1 and IFRS Practice Statement with no impact on its consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors has been amended for annual reporting periods on or after January 1, 2023 with earlier application permitted. The update is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific IFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis. Effective January 1, 2023, the Company adopted the Amendment of IAS 8 with no impact on its consolidated financial statements.

3. Significant accounting policies (continued):

IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction has been amended for annual reporting periods beginning on or after January 1, 2023 with early application permitted. The amendment narrows the scope of the initial recognition exemption so that it does, not apply to transactions that give rise to equal and offset temporary difference. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary difference arising on initial recognition of transactions such as leases. Effective 1, 2023, the Company adopted the Amendment of IAS 12 with no impact on its consolidated financial statements.

Standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC) that are not yet effective up to the date of issuance of the Company’s financial statements are listed below.

Amendments to IAS1, issued in October 2022, require an entity to disclose, in specified circumstances, information in the notes that enables financial statement users to understand the risk that non-current liabilities with covenants could become repayable within 12 months after the reporting period. As part of the amendments, a provision was added to clarify that only covenants that an entity must comply with on or before the reporting date would affect a liability’s classification as current or non-current, even if compliance with the covenant is only assessed after the entity’s reporting date. The amendments are effective for annual periods beginning on or after January 1, 2024. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

IFRS 16 leases has been amended for specifications on how to recognize, measure, present and disclose leases for annual reporting periods on or after January 1, 2024 with earlier application permitted. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying assets has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases retained. The Company is assessing the impact of adopting this amendment on its consolidated financial statements.

4. Minority interest:

Effective September 28, 2020, the Company entered into subscription and license and distribution agreements with Animalcare Group PLC ("Animalcare") under which the parties formed STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals.

Under the terms of the agreements, the Company created a new subsidiary, STEM, in which Animalcare is investing $3 million in installments payable to STEM over a period of 48 months, to acquire a 33.34% equity interest. STEM was established with a global license over the Company’s existing range of animal health oral care products and in collaboration with Animalcare is focusing on the research and development of novel animal treatments based on biofilm targeting technology. Animalcare will have licensing rights over future STEM products in Europe and Asia and the option, for a period of six years, to acquire an additional 16.67% interest in the subsidiary for $4 million, payable to the Company.

Additionally, in exchange for Animalcare receiving the right to commercialize the Company’s coactiv+™ and DispersinB® products in global veterinary markets outside the Americas, Animalcare provided an initial payment to STEM of $500,000. There are additional potential payments payable to STEM linked to various commercial milestones to a combined maximum of $2 million along with ongoing royalties. As of June 30, 2023, $1.2 million of the $2 million in potential payments have been made to STEM. STEM is recognizing the $1.2 million of payments received on a straight-line basis over the 10-year life of the agreement.

Effective September 28, 2020, the Company transferred to STEM all of the required assets to operate its animal health business, in exchange for its 66.66% interest. The Company and STEM accounted for the transferred assets at book value. Animalcare has provided an initial capital contribution of $1 million to STEM with the remaining $2 million payable to STEM in instalments of $500,000 on each of the first four anniversary dates of the agreement. At initial recognition, using a discount rate of 7%, the Company determined the fair value of the future capital contributions receivable to be $1,693,606.

STEM received payments of $500,000 from Animalcare towards the capital contribution receivable in each of 2021 and 2022. As of June 30, 2023, the carrying value of capital contributions receivable is $951,066 (December 31, 2022 - $919,430).

4. Minority interest (continued):

The Company, which holds a 66.66% interest in STEM, along with other contributing factors, such as the Company retaining three of five Board positions of STEM, providing extensive services to STEM, and having a significant ability to affect the returns of STEM, has concluded that it controls STEM. Accordingly, all of STEM's assets, liabilities, equity, income, expense, and cash flows are included with Kane Biotech's in the Company's consolidated financial statements. Animalcare's investment was recorded as a minority interest in the Consolidated Statement of Financial Position at its initial fair value of $2,693,606.

STEM's principal place of business is in Winnipeg, Manitoba, Canada.

Summarized financial information, before inter-company eliminations, for STEM is as follows:

		June 30, 2023		December 31, 2022
Current assets	**$**	**2,277,388**	$	2,456,083
Non-current assets		**619,237**		522,826
Current liabilities		**(523,449)**		(583,297)
Non-current liabilities		**(935,594)**		(541,261)
Net assets	**$**	**1,437,582**	$	1,854,351

		Three months ended June 30, 2023		Three months ended June 30, 2022		**Six months ended June 30, 2023**		Six months ended June 30, 2022
Revenue	**$**	**628,392**	$	802,408	**$**	**1,270,738**	$	1,327,626
Income (loss) and comprehensive income (loss)	**$**	**(286,048)**	$	316,128	**$**	**(416,768)**	$	185,435

5. License and distribution agreements:

The Company has an exclusive license and distribution agreement with Dechra Veterinary Products LLC ("Dechra") that provides for an initial payment of $500,000 USD along with a series of potential payments linked to various commercial milestones to a combined maximum of $2.0 million USD. In addition, the Company receives ongoing royalty payments on net sales of products by Dechra in North America, subject to certain minimum annual royalty payments from Dechra to the Company.

The Company subsequently expanded its exclusive distribution agreement with Dechra to include South America which resulted in an additional $125,000 USD milestone payment from Dechra related to the successful production of a pilot product manufacturing batch by a manufacturer in South America.

The Company also has an exclusive license and distribution agreement with Animalcare Group PLC ("Animalcare") that provides for an initial payment of $500,000 along with a series of potential payments linked to various commercial milestones to a combined maximum of $2.0 million.

On April 18, 2023, the Company signed an exclusive distribution agreement with ProgenaCare Global LLC ("ProgenaCare") that provides for an upfront payment of $500,000 USD to cover the Company's product manufacturing scale-up costs. Under the terms of the agreement, ProgenaCare will have exclusive distribution rights in the United States wound care market for the Company's coactiv+™ Antimicrobial Wound Gel.

On April 17, 2023, the Company signed a license and distribution agreement with Skout's Honor Pet Supply Co. ("Skout's Honor"). Under the terms of the agreement, STEM is entitled to receive a $500,000 USD license fee to be paid over the course of the agreement, as well as an ongoing royalty on all Skout's Honor's sales of products in North America that use the coactiv+™ technology.

5. License and distribution agreements (continued):

During the year ended December 31, 2022, STEM was awarded the Veterinary Oral Health Council ("VOHC") Seal of Acceptance which, in accordance with the Dechra and Animalcare license and distribution agreements, triggers $1.3 million in milestone payments of which $500,000 USD was received in 2022 and $700,000 was received during the three months ended June 30, 2023.

IFRS 15 requires the Company to use a five-step model to determine the timing and amount of revenue recognition with respect to payments received pursuant to its licenses and distribution agreement. Upon the evaluation of payments received using the five-step model, the Company concluded that all initial and milestone payments received should be recognized over the terms of the agreements with the exception of the initial payment received from ProgenaCare which the Company determined should be recognized upon the delivery of clinically usable products as per the terms of the related exclusive distribution agreement.

Summarized milestone payments received and related revenue recognized are as follows:

	Dechra Initial Payment $500,000 USD	Dechra SA Initial Payment $125,000 USD	Animalcare Initial Payment $500,000 CAD	Dechra Milestone Payment $500,000 USD	Animalcare Milestone Payment $700,000 CAD	ProgenaCare Contract Payment	Total
Balance as of January 1, 2022	$ 346,539	$ 136,477	$ 437,500	$ -	$ -	$ -	$ 920,516
Payment received	-	-	-	641,561	-	-	641,561
Revenue recognized in 2022	(67,074)	(26,415)	(50,000)	(373,643)	-	-	(517,132)
Balance as of December 31, 2022	$ 279,465	$ 110,062	$ 387,500	$ 267,918	$ -	$ -	$ 1,044,945
Payments received	-	-	-	-	700,000	678,321	1,378,321
Revenue recognized in 2022 before payment received	-	-	-	-	(157,788)	-	(157,788)
Revenue recognized in 2023 up to June 30	(33,537)	(13,207)	(25,000)	(32,078)	(35,000)	-	$ (138,822)
Balance as of June 30, 2023	**$ 245,928**	**$ 96,855**	**$ 362,500**	**$ 235,840**	**$ 507,212**	**$ 678,321**	**$ 2,126,656**
Years Left on agreement	**3.7**	**3.7**	**7.2**	**3.7**	**7.2**		

For the three months ended June 30, 2023, the Company recognized license revenue of $83,027 (June 30, 2022 – $500,225) associated with initial and milestone payments received in prior and current periods.

For the six months ended June 30, 2023, the Company recognized license revenue $152,438 (June 30, 2022 - $536,097) associated with initial and milestone payments received in prior and current periods.

For the three months ended June 30, 2023, the Company recorded $13,616 in license revenue related to a partially earned contractual license payment that was received subsequent to June 30, 2023.

6. Trade and other receivables:

	June 30, 2023	December 31, 2022
Trade receivables	**$ 174,741**	$ 321,009
Other receivables	**162,033**	261,080
	$ 336,774	$ 582,089

7. Inventory:

		June 30, 2023		December 31, 2022
Raw materials	**$**	**417,688**	$	328,334
Work-in-progress		**1,896**		986
Finished goods		**466,523**		437,131
Allowance for inventory obsolescence		**(20,865)**		(2,980)
	$	**865,242**	$	763,471

The cost of inventories recognized as an expense and included in cost of sales for the three months ended June 30, 2023 was $174,195 (June 30, 2022 - $93,257). In the three months ended June 30, 2023, the Company has written down $17,597 (June 30, 2022 - $(8,249), recovery), related to discontinued and expired products, which is included in cost of sales.

The cost of inventories recognized as an expense and included in cost of sales for the six months ended June 30, 2023 was $375,840 (June 30, 2022 - $304,888). In the six months ended June 30, 2023, the Company has written down $21,424 (June 30, 2022 - $15,420), related to discontinued and expired products, which is included in cost of sales.

8. Property and equipment:

The following is a summary of property and equipment as of June 30, 2023:

Cost		Computer and Office Equipment		Scientific and Manufacturing Equipment		Right-of-use Assets		Total
Balance as of January 1, 2022	$	135,554	$	331,406	$	1,327,857	$	1,794,817
Additions - 2022		9,124		88,547		(85,121)		12,550
Change due to derecognition - 2022		(27,443)		(28,439)		(17,311)		(73,193)
Balance as of December 31, 2022	$	117,235	$	391,514	$	1,225,425	$	1,734,174
Additions - 2023		1,376		85,746		-		87,122
Change due to derecognition - 2023		(13,087)		-		-		(13,087)
Balance as of June 30, 2023	**$**	**105,524**	**$**	**477,260**	**$**	**1,225,425**	**$**	**1,808,209**

Depreciation		Computer and Office Equipment		Scientific and Manufacturing Equipment		Right-of-use Assets		Total
Balance as of January 1, 2022	$	54,089	$	188,197	$	116,572	$	358,858
Additions - 2022		19,364		67,045		99,771		186,180
Change due to derecognition - 2022		(25,080)		(26,147)		(12,106)		(63,333)
Balance as of December 31, 2022	$	48,373	$	229,095	$	204,237	$	481,705
Additions - 2023		7,879		19,674		61,272		88,825
Change due to derecognition - 2023		(11,877)		-		-		(11,877)
Balance as of June 30, 2023	**$**	**44,375**	**$**	**248,769**	**$**	**265,509**	**$**	**558,653**

Carrying amounts		Computer and Office Equipment		Scientific and Manufacturing Equipment		Right-of-use Assets		Total
Balance as of December 31, 2022	$	68,862	$	162,419	$	1,021,188	$	1,252,469
Balance as of June 30, 2023	**$**	**61,149**	**$**	**228,491**	**$**	**959,916**	**$**	**1,249,556**

9. Intangible assets:

The following is a summary of intangible assets as of June 30, 2023:

Cost		Patents		Trademarks		Total
Balance as of January 1, 2022	$	954,169	$	107,711	$	1,061,880
Additions - 2022		63,963		11,036		74,999
Balance as of December 31, 2022	$	1,018,132	$	118,747	$	1,136,879
Additions - 2023		15,286		463		15,749
Balance as of June 30, 2023	**$**	**1,033,418**	**$**	**119,210**	**$**	**1,152,628**

Accumulated amortization and derecognition		Patents		Trademarks		Total
Balance as of January 1, 2022	$	233,237	$	-	$	233,237
Amortization - 2022		77,190		-		77,190
Balance as of December 31, 2022	$	310,427	$	-	$	310,427
Amortization - 2023		37,471		-		37,471
Balance as of June 30, 2023	**$**	**347,898**	**$**	**-**	**$**	**347,898**

Carrying amounts		Patents		Trademarks		Total
Balance as of December 31, 2022	$	707,705	$	118,747	$	826,452
Balance as of June 30, 2023	**$**	**685,520**	**$**	**119,210**	**$**	**804,730**

The Company has considered indicators of impairment as of June 30, 2023 and has not derecognized any patents for the six months ended June 30, 2023 (June 30, 2022 - nil). To June 30, 2023, the Company has recorded aggregate impairment (derecognition) losses of $1,481,911 (June 30, 2022 - $1,481,911), primarily resulting from patents and patent applications that were abandoned.

Amortization and derecognition expenses are recognized in research expense.

10. Accounts payable and accrued liabilities:

		June 30, 2023		December 31, 2022
Trade payables	**$**	**562,348**	$	602,803
Non-trade payables and accrued expenses		**1,048,347**		1,244,892
	$	**1,610,695**	$	1,847,695

11. Due to related party:

The due to related party balance of $8,066 as of June 30, 2023 (December 31, 2022 - $8,066) is accumulated interest pertaining to prior years' related party cash advances which bore interest at 8% per annum as of January 1, 2019 and were repayable upon demand by the lender.

12. Loans payable:

(a) Loan payable

During the year ended December 31, 2020, the Company entered into a credit agreement (the “Credit Agreement”) with Pivot Financial Inc. (“Pivot”) for a non-revolving term loan in the aggregate amount of $1,480,000 (the “Credit Facility). In connection with the Credit Agreement, Kane entered into a general security agreement in favour of Pivot creating a first-priority security interest in all of its present and after-acquired personal property of Kane, as well as an intellectual property security agreement.

During the year ended December 31, 2021, the Company entered into an amended and restated credit agreement with Pivot, increasing the aggregate amount of the non-revolving loan to $2,500,000. The amended and restated credit facility bore an interest rate of 12.75% per annum and Kane was obligated to make quarterly principal payments in the amount of $200,000 starting on November 30, 2021.

During the year ended December 31, 2022, the Company entered into a further amended and restated credit agreement with Pivot, increasing the aggregate amount of the non-revolving loan to $4,000,000. The amended and restated credit facility bore an interest rate of 14% per annum and Kane is obligated to make monthly interest payments but it is no longer obligated to make quarterly principal payments.

During the three months ended March 31, 2023, the Company entered into a further amended and restated credit agreement with Pivot, increasing the aggregate amount of the non-revolving loan to $5,000,000 and extending the maturity date of the loan until August 31, 2023. This amended and restated credit facility bears an interest rate of 15% per annum. Interest is calculated, compounded and added to the principal amount owing in arrears on the last business day of each calendar month with all obligations under the latest amended and restated credit facility payable on the August 31, 2023 maturity date.

The balance of the Pivot loan owing as of June 30, 2023, including accrued interest, is $5,253,305 (December 31, 2022 - $4,000,000). The balance owing of $5,218,712 as per the June 30, 2023 consolidated statement of financial position (December 31, 2022 - $4,000,000) is net of $34,593 (December 31, 2022 – nil) of unamortized transaction costs. The terms of the latest amended agreement includes a loan covenant requiring the Company to maintain a minimum cash balance of $250,000. The Company was in compliance with this debt covenant as of June 30, 2023.

During the year ended December 31, 2021, STEM entered into a loan agreement with National Bank of Canada (“National Bank”) for a revolving operating line of credit in the amount of $500,000 (the “Credit Facility). The Credit Facility bears interest at National Bank’s prime rate plus 1.75%. In connection with the Credit Facility, STEM has entered into a general security agreement in favour of National Bank creating a first-priority security interest in all its present and after-acquired property. There is no balance owing on the Credit Facility as of June 30, 2023 (December 31, 2022 – nil). The facility is subject to STEM fulfilling a specific working capital covenant. STEM was in compliance with this covenant as of June 30, 2023.

The Company also has access to commercial credit card facilities with an aggregate credit limit of $90,000. As of June 30, 2023, the related credit card balances outstanding included in accounts payable and accrued liabilities on the consolidated statement of financial position is $33,447 (December 31, 2022 – $35,029).

(b) Government loans

During the year ended December 31, 2019, the Company signed a funding agreement with Prairies Economic Development Canada (“PrairiesCan”), previously known as Western Economic Diversification Canada (“WD”). The Company was entitled to receive up to $3,792,984 from PrairiesCan in the form of interest-free repayable contributions over three years on an expense-incurred basis retroactive to April 1, 2019. Repayment of these contributions is taking place over five years starting in April 2023. Up to June 30, 2023, repayable contributions advanced to the Company were $2,491,267 (December 31, 2022 - $2,481,267). As of June 30, 2023, the Government loans balance recorded in the Consolidated Statement of Financial Position was $1,737,258 (December 31, 2022 - $1,734,745). There are no further funding contributions receivable from PrairiesCan.

12. Loans payable (continued):

During the three months ended June 30, 2023, the Company did not record a fair value adjustment (June 30, 2022 - $60,502) since there were no repayable contributions received during the current period (June 30, 2022 - $163,967). During the three months ended June 30, 2023, an accretion expense of $61,905 (June 30, 2022 - $37,867) was recorded as a finance cost during the period.

During the six months ended June 30, 2023, the Company recorded a fair value adjustment of $3,770 (June 30, 2022 - $262,577) on repayable contributions of $10,000 (June 30, 2022 - $675,303) received during the period. This amount has been offset with an accretion expense of $122,283 (June 30, 2022 - $70,802) that was recorded as a finance cost during the period.

Repayment schedule of these contributions is as follows:

2023	$	252,000
2024		504,000
2025		504,000
2026		504,000
2027 and after		601,267
	$	2,365,267

In 2020 and 2021, the Company received $60,000 in loan advances from the Canada Emergency Business Account (CEBA) program. These loan advances are interest-free up to the amended term date ending December 31, 2023 and $20,000 is forgivable if $40,000 is repaid prior to the amended term date. The Company recorded the loan at fair value at the initial recognition assuming forgiveness of $20,000 and an effective interest rate of 14%.

The following is a summary of proceeds received, fair value adjustment recorded, and accretion expense recorded as of June 30, 2023 and December 31, 2022:

		PrairieCan Loan		CEBA Loan		Total
Balance as of January 1, 2022	$	1,084,965	$	30,670	$	1,115,635
Proceeds - 2022		677,160		-		677,160
Fair value adjutment on loans - 2022		(254,898)		-		(254,898)
Accretion expense - 2022		227,518		3,791		231,309
Balance as of December 31, 2022	$	1,734,745	$	34,461	$	1,769,206
Proceeds - 2023		10,000		-		10,000
Fair value adjutment on loans - 2023		(3,770)		-		(3,770)
Repayment - 2023		(126,000)		-		(126,000)
Accretion expense - 2023		122,283		1,880		124,163
Balance as of June 30, 2023	**$**	**1,737,258**	**$**	**36,341**	**$**	**1,773,599**
Government loans - current		279,734		36,341		316,075
Government loans - long-term		1,457,524		**-**		1,457,524
	$	**1,737,258**	**$**	**36,341**	**$**	**1,773,599**

13. Note payable:

On January 1, 2023, STEM purchased manufacturing equipment for $60,000 at which time a non-interest bearing promissory note for $60,000 was issued by STEM to the seller of the equipment. The terms of the promissory note requires STEM to make monthly payments of $2,500 per month to the seller over a two-year period with the promissory note being repaid in full by January 1, 2025. At initial recognition, using a discount rate of 19%, the Company determined the fair value of the note payable to be $49,542.

As of June 30, 2023, the balance owing, including accrued interest, is $53,858 (December 31, 2022, - nil).

14. Lease liabilities:

Effective May 1, 2021, the Company signed a 10-year facility lease for both its laboratory and office premises. The terms of the lease require fixed monthly rent payments of $13,889 over 10 years. At initial recognition, using a discount rate of 6%, the Company determined the fair value lease of the lease liability to be $1,225,425.

As of June 30, 2023, the carrying amount of lease liabilities was $1,036,291 (December 31, 2022 - $1,087,634). The breakdown of contractual undiscounted cash flows for lease liabilities as of June 30, 2023 and December 31, 2022 is as follows:

		June 30, 2023		December 31, 2022
Less than one year	**$**	**166,668**	$	166,668
One to five years		**666,672**		666,672
Over five years		**466,882**		550,216
Discounting		**(263,931)**		(295,922)
	$	**1,036,291**	$	1,087,634

Additions, payments, and interests paid related to lease liabilities are as following:

		Facility Lease		**Equipment & Other Leases**		**Total**
Balance as of January 1, 2022	$	1,185,818	$	34,458	$	1,220,276
Derecognition - 2022		-		(5,205)		(5,205)
Payments - 2022		(166,669)		(30,401)		(197,070)
Interest paid - 2022		68,485		1,148		69,633
Balance as of December 31, 2022	$	1,087,634		-	$	1,087,634
Payments - 2023		(83,334)		-		(83,334)
Interest paid - 2023		31,991		-		31,991
Balance as of June 30, 2023	**$**	**1,036,291**	**$**	**-**	**$**	**1,036,291**

The following is a summary of expenses recognized in the Consolidated Statement of Loss and Comprehensive Loss related to lease liabilities and short-term leases:

		Three months ended June 30, 2023		Three months ended June 30, 2022		**Six months ended June 30, 2023**		Six months ended June 30, 2022
Interest on lease liabilities	**$**	**15,803**	$	17,695	**$**	**31,991**	$	36,032
Expenses related to variable lease payments	**$**	**4,436**	$	3,965	**$**	**11,675**	$	7,402
Expenses related to short-term leases	**$**	**40,343**	$	26,449	**$**	**77,581**	$	51,479

For the three months ended June 30, 2023, the total cash outflow for leases was $86,447 (June 30, 2022 - $84,232).

For the six months ended June 30, 2023, the total cash outflow for leases was $172,590 (June 30, 2022 - $165,016).

15. Share capital:

(a) Authorized

The Company has authorized share capital of an unlimited number of common voting shares.

(b) Shares issued and outstanding

Shares issued and outstanding are as follows:

	Number of Common Voting Shares		Amount
Balance at January 1, 2022	114,813,535	$	22,156,228
Restricted share units redeemed	16,667	$	3,000
Issuance of common shares	10,000,000		973,704
Balance as of December 31, 2022	124,830,202	$	23,132,932
Restricted share units redeemed	364,365		65,586
Balance as of June 30, 2023	125,194,567	$	23,198,518

(c) Stock option plan

The Company has an equity-settled Stock Option Plan ("Plan") in place for employees, directors, officers, and consultants of the Company which is administered by the Board of Directors. At the General and Special Meeting of Shareholders held on May 25, 2022, the Company received shareholder approval to set the number of common shares reserved for the issuance of stock options under the Plan at 1% of the issued and outstanding shares of the Company as of May 25, 2022. As of June 30, 2023, an aggregate maximum of 1,148,302 (December 31, 2022 – 1,148,302) common share options are reserved for issuance under the Plan with 1,148,302 (December 31, 2022 – 1,148,302) of those common share options remaining available.

Share options issued to employees, directors and officers of the Company under the Plan expire five years from the grant date. The attributed exercise price of the grant per the Plan cannot be less than the closing price per common share on the date of the grant.

Effective on all stock options issued after April 21, 2021:

i) The exercise price shall, at a minimum, be equal to the fair market value of the Company's common stock on the grant date (TSXV share price).

ii) Each stock option shall vest in three equal annual installments, beginning on the grant date unless the participant is employed in investor relation activities for the Company. In such case each stock option shall vest in four equal quarterly installments beginning three months after the grant date

iii) The options shall expire five years from the date of issue.

iv) Grants to executive officers shall be made by the Compensation Committee of the Company's Board of Directors. Grants to staff shall be made by authorized officers (the CEO and CFO). The authorized officers may not approve any stock option awards exceeding 500,000 shares to any staff member.

v) All exceptions must be approved by the Compensation Committee.

Changes in the number of options outstanding during the year ended June 30, 2023 and December 31, 2022 are as follows:

15. Share capital (continued):

	June 30, 2023			December 31, 2022		
	Options		**Weighted average exercise price**	Options		Weighted average exercise price
Balance as of January 1, 2023	-	$	-	335,895	$	0.17
Forfeited, cancelled or expired	-	$	-	(335,895)	$	0.17
Balance, end of period	-	$	-	-	$	-
Options exercisable, end of period	-	$	-	-	$	-
Weighted average fair value per unit of option granted during the period		$	-		$	0.17

For the three months ended June 30, 2023, the Company did not record any stock option compensation expenses (June 30, 2022 – $(15,356), recovery).

For the six months ended June 30, 2023, the Company did not record any stock option compensation expenses (June 30, 2022 - $(8,472), recovery).

(d) Restricted share unit plan

During the year ended December 31, 2021, the Company implemented a new equity-settled Restricted Share Unit Plan ("RSU Plan") for employees, directors, officers, and consultants of the Company which is administered by the Board of Directors. At the General and Special Meeting of Shareholders held on May 24, 2023, the Company received shareholder approval to set the number of common shares reserved for the issuance of RSUs under the RSU Plan at 19% of the issued and outstanding shares of the Company as of May 24, 2023. As of June 30, 2023, an aggregate maximum of 23,720,905 (December 31, 2022 – 21,817,738) restricted share units are reserved for issuance under the Plan with 4,753,363 (December 31, 2022 – 11,094,917) of those common share options remaining available.

During the year ended December 31, 2021, the Company issued 4,583,285 RSUs to various directors, officers, employees, and consultants of the Company in addition to the 6,156,203 RSUs that replaced the 8,470,555 cancelled stock options. Each exchanged RSU is exercisable into one common share of the Company. Expiry dates and vesting periods of the RSUs vary depending upon the participant.

On June 23, 2023, the Company issued 9,703,809 RSU's to various directors, officers, employees, and consultants of the Company. Each exchanged RSU is exercisable into one common share of the Company. Expiry dates and vesting periods of the RSUs vary depending on upon the participant.

Restricted share units outstanding as of June 30, 2023 and December 31, 2022 consist of the following:

15. Share capital (continued):

	June 30, 2023	December 31, 2022
Balance, beginning of period	**10,722,821**	10,739,488
Additions	**9,703,809**	-
Expired	**(1,042,422)**	-
Forfeited	**(416,666)**	-
Redeemed	**(364,365)**	(16,667)
Balance, end of period	**18,603,177**	10,722,821
Restricted share units exercisable, end of period	**8,042,246**	9,449,033

During the three months ended June 30, 2023, the Company recorded RSU compensation expense of $33,959 (June 30, 2022 - $101,653) with a corresponding credit to contributed surplus.

During the six months ended June 30, 2023, the Company recorded RSU compensation expense recovery of ($1,369) (June 30, 2022 - $211,462, expense) with a corresponding offset to contributed surplus.

RSU compensation expense is based on the fair value of the RSUs as determined by the Company's closing share price on the TSX Venture Exchange on the date of issuance.

For awards that vest at the end of a vesting period, compensation cost is recognized on a straight-line basis over the period of service. For awards subject to graded vesting, each instalment is treated as a separate award with separate fair value and a separate vesting period.

(e) Warrants

During the six months ended June 30, 2023, the Company issued 2,500,000 warrants to a third-party for their guaranty of the $1,000,000 increase in the credit facility related to an amending agreement signed with Pivot on March 1, 2023. Each warrant expires one year from the date that the warrants were issued and entitles the holder to purchase one common share at a price of $0.10 up to the expiry date April 19, 2024.

During the three months ended June 30, 2023, no warrants were exercised (June 30, 2022 – nil) or expired (June 30, 2022 – nil).

During the six months ended June 30, 2023, no warrants were exercised (June 30, 2022 – nil) or expired (June 30, 2022 - 35,669,192).

The numbers of warrants outstanding as of June 30, 2023 and December 31, 2022 are as follows:

15. Share capital (continued):

	June 30, 2023			December 31, 2022		
	Warrants	**Amount**	**Weighted average exercise price**	Warrants	Amount	Weighted average exercise price
Balance as of January 1, 2023	**-**	**$ -**	**$ -**	35,669,192	$ 1,662,385	$ 0.18
Granted	**2,500,000**	**$ 106,152**	**$ 0.10**	-	$ -	$ -
Expired	**-**	**$ -**	**$ -**	(35,669,192)	$ (1,662,385)	$ 0.18
Balance as of June 30, 2023	**2,500,000**	**$ 106,152**	**$ 0.10**	-	$ -	$ 0.18
Weighted average remaining contractual life		**0.81**			0.10 years	

The relative fair value of warrants was determined at the date of issue using the Black-Scholes Model with the following weighted average assumptions:

	April 20, 2023
Expected option life	**1 year**
Risk free interest rate	**3.69%**
Expected volatility	**71.02%**
Grant-date share price	**0.12**
Warrant exercise price	**0.10**

(f) Per share amounts

The weighted average number of common voting shares outstanding for the three months ended June 30, 2023 and 2022 was 124,933,141 and 116,744,488 respectively.

The weighted average number of common voting shares outstanding for the six months ended June 30, 2023 and 2022 was 124,881,956 and 115,786,187 respectively.

The dilution created by outstanding restricted share units, options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.

16. Commitments and contingencies:

(a) Commitments

As of June 30, 2023 and in the normal course of business, the Company has obligations to make future payments, representing contracts and other commitments that are known and committed.

Contractual obligation payments due by fiscal year ending December 31:

16. Commitments and contingencies (continued):

	USD		CND	
2023	$	-	$	12,440
2024	$	10,000	$	24,880
2025	$	10,000	$	12,440
2026	$	10,000	$	-
2027 and after	$	10,000	$	-
	$	40,000	$	49,760

The Company holds a worldwide exclusive right to Competence Stimulating Peptide (CSP) technology from the University of Toronto Innovations Foundation (UTIF). In consideration for the right, the Company will pay UTIF a royalty of a stipulated percentage of the net sales, if any, of the licensed products. If the Company sublicenses any rights to a third party, the Company will pay UTIF a percentage of a sublicense fee or sublicense royalty fees. The Company does not expect to make royalty payments under this agreement in fiscal 2023 and cannot predict when such royalties will become payable, if at all.

Also, the Company holds a worldwide exclusive license to the DispersinB® enzyme from the University of Medicine and Dentistry of New Jersey (UMDNJ), now part of Rutgers University (Rutgers). In consideration for the right, the Company will pay a royalty to Rutgers of a stipulated percentage of the net sales, if any, of the licensed products. If the Company sublicenses any rights to a third party, the Company will pay Rutgers a percentage of a sublicense fee and/or sublicense royalty fees. A minimum royalty fee of $10,000 USD per annum is payable for the life of the license, with additional milestone payments possible throughout the term of the agreement.

(b) Guarantee

The Company periodically enters into research and licence agreements with third parties that include indemnification provisions customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred because of claims arising from research and development activities undertaken on behalf of the Company. In some cases, the maximum potential number of future payments that could be required under these indemnification provisions could be unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying financial statements with respect to these indemnification obligations.

17. Government and other assistance:

For the three months ended June 30, 2023, the Company recorded $98,142 in government assistance (June 30, 2022 - $76,789)

For the six months ended June 30, 2023, the Company recorded $131,729 in government assistance (June 30, 2022 – $366,189).

Government assistance was recorded as reductions in research expenditures on the consolidated statements of loss and comprehensive loss.

As of June 30, 2023, other receivables included $111,778 (December 31, 2022 – $97,462) of government assistance receivable.

18. Related parties:

(a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company. The Board of Directors, President & CEO and CFO are key management personnel.

18. Related parties (continued):

Board of Director compensation includes board fee and restricted share units. President & CEO and CFO compensation includes base salaries, a shot-term incentive plan and restricted share unit. The following table details the compensation recorded for key management personnel:

	Three months ended June 30, 2023	Three months ended June 30, 2022	**Six months ended June 30, 2023**	Six months ended June 30, 2022
Salaries, fees and short-term employee benefits	**$ 115,507**	$ 123,491	**$ 226,251**	$ 229,741
Share-based payments expense (recovery)	**32,886**	83,581	**(5,541)**	178,422
	$ 148,393	$ 207,072	**$ 220,710**	$ 408,163

(b) Key management personnel and director transactions

Directors and key management personnel control 27.3% of the voting shares of the Company.

During the year ended December 31, 2021, $13,775 was paid to a related party pertaining to accumulated interest on prior years' related party cash advances. The balance of due to related party as of June 30, 2023 is accumulated interest of $8,066 (December 31, 2022 - $8,066). These advances bore interest at 8% per annum as of January 1, 2019 and were repayable upon demand by the lender. During the year ended December 31, 2019, the Company repaid all principal owing on these advances.

Accrued liabilities owing to key management personnel was nil as of June 30, 2023 (December 31, 2022 – nil).

19. Segmented information:

The Company has a separate operating segment for its Stem Animal Health subsidiary, which operates the animal health business. There are no other distinct operating segments within the remaining operations of the Company.

Information regarding the results by operating segment for the three and six months ended June 30, 2023 is as follows:

19. Segmented information (continued):

	Three months ended June 30, 2023	Three months ended June 30, 2023	Three months ended June 30, 2023	Six months ended June 30, 2023	Six months ended June 30, 2023	Six months ended June 30, 2023
Revenue	**STEM**	**All Other Segments**	**Total**	**STEM**	**All Other Segments**	**Total**
License	$ 59,655	$ 23,372	$ 83,027	$ 105,694	$ 46,744	$ 152,438
Royalty	89,850	-	89,850	158,619	-	158,619
Sales of goods and services	478,887	5,546	484,433	1,006,425	17,445	1,023,870
Total Revenue	628,392	28,918	657,310	1,270,738	64,189	1,334,927
Cost of sales-sales of goods and services	321,413	5,392	326,805	646,865	12,510	659,375
Gross Profit	306,979	23,526	330,505	623,873	51,679	675,552
Expenses						
General and administration	587,327	218,579	805,906	1,035,525	823,217	1,858,742
Research	4,406	55,917	60,323	12,077	356,202	368,279
	591,733	274,496	866,229	1,047,602	1,179,419	2,227,021
Loss from operations	(284,754)	(250,970)	(535,724)	(423,729)	(1,127,740)	(1,551,469)
Other expenses (income):						
Finance income	(15,952)	(912)	(16,864)	(31,636)	(912)	(32,548)
Finance costs	2,810	428,371	431,181	5,849	665,590	671,439
Fair value adjustment - government loan	-	-	-	-	(3,770)	(3,770)
Foreign exchange loss	14,436	3,428	17,864	18,826	7,173	25,999
Net other expenses (income)	1,294	430,887	432,181	(6,961)	668,081	661,120
Loss and comprehensive loss for the period	$ (286,048)	$ (681,857)	$ (967,905)	$ (416,768)	$ (1,795,821)	$ (2,212,589)
Loss and comprehensive loss attributable to:						
Shareholders	(190,680)	(681,857)	(872,537)	(277,818)	(1,795,821)	(2,073,639)
Minority interest	(95,368)	-	(95,368)	(138,950)	-	(138,950)
Loss and comprehensive loss for the period	$ (286,048)	$ (681,857)	$ (967,905)	$ (416,768)	$ (1,795,821)	$ (2,212,589)

Information regarding the financial position by operating segment as of June 30, 2023 is as follows:

	June 30, 2023 Stem	June 30, 2023 All Other Segments	June 30, 2023 Total
Current assets	$ 2,277,388	$ 791,234	$ 3,068,622
Non-current assets	619,237	1,894,501	2,513,738
Total assets	$ 2,896,625	$ 2,685,735	$ 5,582,360
Current liabilities	$ 523,449	$ 7,733,137	$ 8,256,586
Non-current liabilties	935,594	2,635,697	3,571,291
Shareholders' equity (deficit)	1,437,582	(7,683,099)	(6,245,517)
Total liabilities and shareholder's equity	$ 2,896,625	$ 2,685,735	$ 5,582,360

In terms of geographic segmentation, a substantial proportion of the Company's revenues come from non-Canadian sources. The breakdown of Canadian to non-Canadian revenues is as follows:

19. Segmented information (continued):

	Three months ended June 30, 2023	Three months ended June 30, 2023		**Six months ended June 30, 2023**		Six months ended June 30, 2022
Domestic	**298,532**	176,642	**$**	**666,278**	$	523,266
International	**358,778**	662,937		**668,649**		881,747
	657,310	839,579	**$**	**1,334,927**	$	1,405,013

Three of the Company's largest customers accounted for 66% of the Company's total sales for the three months ended June 30, 2023 (June 30, 2022 – three customers, 79%).

Three of the Company's largest customers accounted for 64% of the Company's total sales for the six months ended June 30, 2023 (June 30, 2022 – three customers, 67%).

20. Determination of fair values:

Several of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values that have been determined for measurement and/or disclosure purposes based on certain models are indicated below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Share-based payment transactions:

The fair value of stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments, expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not considered in determining fair value.

The fair value of restricted share units is determined by the Company's closing share price on the TSX Venture Exchange on the date of issuance.

(b) Financial assets and liabilities:

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. The carrying values of current monetary assets and liabilities approximate their fair values due to their relatively short periods to maturity except for the government loans which as of June 30, 2023 has a fair value of $1,773,599 (December 31, 2022 - $1,769,206).

Financial assets and liabilities that are recognized on the consolidated statement of financial position at fair value follow a hierarchy that is based on the significance of the inputs used in making the measurements. The government loans represent a level 2 input that represents inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).