Consolidated Financial Statement
(Expressed in Canadian Dollars)

KANE BIOTECH INC.

Years ended December 31, 2023 and 2022

Independent Auditor's Report

To the Shareholders of Kane Biotech Inc.:

Opinion

We have audited the consolidated financial statements of Kane Biotech Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of loss and comprehensive loss, changes in deficit and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(c) in the consolidated financial statements, which indicates that the Company incurred operating losses and negative cash flows from operating activities during the year ended December 31, 2023. As stated in Note 2(c), these events or conditions, along with other matters as set forth in Note 2(c), indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

MNP LLP

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Intangible assets

Key Audit Matter Description

Impairment of intangible assets

Given the changing nature of the industry in which the Company operates, there is a risk that there could be a material impairment to intangible asset balances. The determination as to whether or not there is impairment relating to the assets of a Cash Generating Unit ("CGU") involves significant judgment about the future cash flows and plans for these assets and CGUs. Refer to Note 3 Material Accounting Policies and Note 10 Intangible Assets for disclosures regarding the Company's policy for accounting for intangible assets and further information on their composition.

Audit Response

We responded to this matter by performing procedures over the valuation of intangible assets. Our audit work in relation to this included, but was not restricted to, the following:

- We obtained and evaluated management's assessment of impairment of intangible assets including their calculation of the recoverable amount of its CGUs;
- We assessed the reasonability of management's cash flow projections used in the impairment models as well as the reliability of their historical cash flow forecasts;
- We developed a point estimate for the recoverable amount of the intangible assets by preparing an independent calculation using projected cashflows specific to the intangible assets;
- We involved our valuation specialists to assess the reasonability of key assumptions including the discount rate; and
- We assessed the appropriateness and completeness of related disclosures in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Winnipeg, Manitoba

MNP LLP

March 26, 2024

Chartered Professional Accountants

KANE BIOTECH INC.

Consolidated Statements of Financial Position

	Note		December 31, 2023		December 31, 2022
Assets					
Current assets:					
Cash and cash equivalents		$	**749,248**	$	1,104,901
Trade and other receivables	**7,19**		**103,102**		582,089
Inventory	**8**		**250,417**		763,471
Capital contributions receivable	**4**		**-**		475,261
Other current assets			**148,645**		171,023
Assets held-for-sale	**5**		**2,471,694**		-
Total current assets			**3,723,106**		3,096,745
Non-current assets:					
Property and equipment	**9**		**1,065,724**		1,252,469
Intangible assets	**10**		**733,284**		826,452
Capital contributions receivable	**4**		**-**		444,169
Assets held-for-sale	**5**		**158,805**		-
Total non-current assets			**1,957,813**		2,523,090
Total assets		$	**5,680,919**	$	5,619,835
Liabilities and Shareholders' Deficit					
Current liabilities:					
Accounts payable and accrued liabilities	**11**	$	**1,610,996**	$	1,847,695
Contract liabilities	**6**		**751,384**		207,644
Due to related party	**12**		**8,066**		8,066
Loan payable	**13(a)**		**6,625,679**		4,000,000
Government loans	**13(b)**		**339,763**		173,911
Lease liability	**15**		**110,676**		104,246
Deposit received on assets and liabilities held-for-sale	**5**		**826,703**		-
Liabilities held-for-sale	**5**		**621,133**		-
Total current liabilities			**10,894,400**		6,341,562
Non-current liabilities:					
Contract liabilities	**6**		**191,418**		837,301
Government loans	**13(b)**		**1,302,463**		1,595,295
Lease liability	**15**		**872,712**		983,388
Liabilities held-for- sale	**5**		**829,318**		-
Total non-current liabilities			**3,195,911**		3,415,984
Shareholders' Deficit					
Share capital	**17(b)**		**23,686,359**		23,132,932
Contributed surplus			**7,749,013**		7,444,668
Warrants	**17(e)**		**140,600**		-
Minority interest in Stem Animal Health Inc.			**2,148,912**		2,384,862
Deficit			**(42,134,276)**		(37,100,173)
Total			**(8,409,392)**		(4,137,711)
Going concern	**2(c)**				
Commitments and contingencies	**18**				
Subsequent events	**26**				
Total liabilities and shareholders' deficit		$	**5,680,919**	$	5,619,835

The notes on pages 5 to 40 are an integral part of these consolidated financial statements.

KANE BIOTECH INC.

Consolidated Statements of Loss and Comprehensive Loss

	Note		Year ended December 31, 2023		Year ended December 31, 2022
Revenue					
License	**4,6**	**$**	**109,886**	$	93,488
Sales of goods			**39,094**		63,245
Total Revenue			**148,980**		156,733
Cost of sales - sales of goods	**8**		**39,510**		44,704
Gross Profit			**109,470**		112,029
Expenses					
General and administration			**2,412,956**		2,533,613
Research	**19**		**1,053,900**		1,036,021
			3,466,856		3,569,634
Loss from continuing operations			**(3,357,386)**		(3,457,605)
Other expenses (income):					
Finance income			**(5,665)**		(15,463)
Finance expenses			**1,215,015**		816,664
Fair value adjustment - government loans			**(3,770)**		(254,898)
Foreign exchange loss (gain)			**(621)**		17,730
Net other expenses from continuing operations			**1,204,959**		564,033
Loss and comprehensive loss from continuing operations			**(4,562,345)**		(4,021,638)
Income (loss) and comprehensive income (loss) from discontinued operations	**5**		**(707,708)**		197,638
Net loss and comprehensive loss		**$**	**(5,270,053)**	$	(3,824,000)
Net loss and comprehensive loss attributable to:					
Shareholders:					
Continuing operations		**$**	**(4,562,345)**	$	(4,021,638)
Discontinued operations	**5**		**(471,758)**		131,746
			(5,034,103)		(3,889,892)
Minority interest:					
Continuing operations			**-**		-
Discontinued operations	**5**		**(235,950)**		65,892
			(235,950)		65,892
Loss and comprehensive loss		**$**	**(5,270,053)**	$	(3,824,000)
Basic and diluted loss per share	**17(f)**	**$**	**(0.04)**	$	(0.03)

The notes on pages 5 to 40 are an integral part of these consolidated financial statements.

KANE BIOTECH INC.
Consolidated Statements 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)
Loss and comprehensive loss from continuing operations					-	(4,021,638)	(4,021,638)
Income and comprehensive income from discontinued operations	5				65,892	131,746	197,638
Transactions with owners, recorded directly in equity							
Issuance of common shares	17(b)	973,704	-	-	-	-	973,704
Share based payments	17(c,d)	-	279,599	-	-	-	279,599
Restricted share units redeemed	17(d)	3,000	(3,000)	-	-	-	-
Warrants expired	17(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 from continuing operations					-	(4,562,345)	(4,562,345)
Loss and comprehensive loss from discontinued operations	5				(235,950)	(471,758)	(707,708)
Transactions with owners, recorded directly in equity							
Issuance of common shares	17(b)	415,841	-	-	-	-	415,841
Share based payments	17(d)	-	441,931	-	-	-	441,931
Warrants granted	17(e)	-	-	140,600	-	-	140,600
Restricted share units redeemed	17(d)	137,586	(137,586)	-	-	-	-
Total transactions with owners		553,427	304,345	140,600	-	-	998,372
Balance as of December 31, 2023		$ 23,686,359	$ 7,749,013	$ 140,600	$ 2,148,912	$ (42,134,276)	$ (8,409,392)

KANE BIOTECH INC.

Consolidated Statements of Cash Flows

	Note	Year ended December 31, 2023	Year ended December 31, 2022
Cash provided by (used in):			
Operating activities:			
Loss and comprehensive loss		**$ (5,270,053)**	$ (3,824,000)
Adjustments for:			
Loss (income) and comprehensive loss (income) from discontinued operations	**5**	**707,708**	(197,638)
Provision for loan receivable	**20(b)**	**-**	178,203
Depreciation of property and equipment	**5,9**	**166,528**	180,492
Amortization of intangible assets	**10**	**72,062**	77,190
Derecognition of property and equipment	**9**	**5,476**	9,860
Derecognition of intangible assets	**10**	**6,924**	-
Derecognition of lease	**15**	**-**	(5,205)
Interest on loans, note payable and finance leases	**13,15**	**1,128,456**	770,194
Warrants expense	**17(e)**	**140,600**	-
Fair value adjustment - government loan	**13(b)**	**(3,770)**	(254,898)
Share-based compensation	**17(c,d)**	**441,931**	279,599
Change in the following:			
Trade and other receivables		**5,816**	279,569
Inventory		**(113,473)**	(70,786)
Other current assets		**(54,667)**	40,573
Accounts payable and accrued liabilities		**199,037**	(221,577)
Contract liabilities	**6**	**553,275**	(93,488)
Cash used in operating activities - continuing operations		**(2,014,150)**	(2,851,912)
Cash used in operating activities - discontinued operations	**5**	**(67,996)**	(191,560)
Cash used in operating activities		**(2,082,146)**	(3,043,472)
Financing activities:			
Issuance of common shares	**17(b)**	**415,841**	973,704
Deposit received on assets and liabilities held-for-sale	**5**	**826,703**	-
Interest paid on loans and finance leases	**13(a), 15**	**(257,989)**	(617,925)
Repayment of loan payable	**13(a)**	**-**	(400,000)
Proceeds from loan payable	**13(a)**	**2,000,000**	2,100,000
Proceeds from long-term government loan	**13(b)**	**10,000**	677,160
Repayment of long-term government loan	**13(b)**	**(378,000)**	-
Repayment of lease liability	**15**	**(104,246)**	(127,437)
Cash provided by investing activities - continuing operations		**2,512,309**	2,605,502
Cash provided by investing activities - discontinued operations	**5**	**469,804**	497,330
Cash provided by financing activities		**2,982,113**	3,102,832
Investing activities:			
Purchase of property and equipment	**5,9**	**(9,215)**	(9,213)
Related party advances	**20(b)**	**-**	(20,000)
Additions to intangible assets	**5,10**	**(40,520)**	(72,019)
Cash used in financing activities - continuing operations		**(49,735)**	(101,232)
Cash used in financing activities - discontinued operations	**5**	**(66,405)**	(6,317)
Cash used in investing activities		**(116,140)**	(107,549)
Increase (decrease) in cash		**783,827**	(48,189)
Cash, beginning of period - continuing operations		**1,104,901**	1,153,090
Cash, beginning of period - discontinued operations		**-**	-
		1,104,901	1,153,090
Less cash, end of period - discontinued operations	**5**	**(1,139,480)**	-
Cash, end of period in continuing operations		**$ 749,248**	$ 1,104,901

The notes on pages 5 to 40 are an integral part of these consolidated financial statements.

1. **Reporting entity:**

Kane Biotech Inc. (the "Company") and its subsidiary STEM Animal Health Inc. ("STEM") 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 March 26, 2024.

(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 year ended December 31, 2023, the Company had a loss and comprehensive loss of $5,270,053 (2022 - $3,824,000) and negative cash flow from operating activities of $ 2,082,146 (2022 - $3,043,472), and as of that date had a working capital deficit of $7,171,294 (2022 - $3,244,817) and deficit of $42,134,276 (2022 - $37,100,173).

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 and its subsidiary'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 consolidated 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 17(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 2(f) Basis of consolidation. The determination of control of STEM.
- Note 3(g)(iii) Impairment of assets held-for-sale. The determination of assets held-for-sale recorded at lower of carrying value and fair value, less costs to sell.
- Note 3(i) Government grants. The determination of eligible expenditures for scientific research and experimental development investment tax credits (SR&ED ITC).

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

(f) Basis of consolidation

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in these consolidated 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.

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, which is 66.66% owned by the Company. The principal place of business is Winnipeg, Manitoba, Canada, and its functional currency is Canadian dollars. Refer to note 5 for further information regarding STEM and its potential sale.

3. Material 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 throughout the related year 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.

3. Material accounting policies (continued):

(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, accounts payable and accrued liabilities, and interest and non-interest-bearing debt are all classified as amortized cost under this standard.

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 statements of loss and comprehensive loss in the period in which they are incurred.

(ii) Depreciation

Depreciation is recognized 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.

3. Material accounting policies (continued):

(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 statements 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.

(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 statements 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.

3. Material accounting policies (continued):

(iii) Assets held-for-sale

In 2023, management made the strategic decision to sell the Company's 66.66% interest in STEM. Assets in STEM ae classified as held-for-sale since it is highly probable that their value will be recovered primarily through a sale rather than through continuing usage. These assets are recorded at the lower of carrying value and fair value, less costs to sell. Impairment losses on the initial classification of held-for-sale and subsequent gains and losses on remeasurement are recognized in the consolidated statements of operations, under discontinued operations. Property, plant and equipment are no longer amortized once they are classified as held-for-sale. The directly associated liabilities are separately classified as liabilities held-for-sale.

(h) Employee benefits

(i) Short-term employee benefits

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

(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 statements 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 statements of loss and comprehensive loss as a reduction of expenses on a systematic basis over the useful life of the asset.

Scientific research and experimental development (SR&ED) investment tax credits (ITC) are recognized in the consolidated statements of loss and comprehensive loss as deductions from research expenditure. Expenditures that are eligible for SR&ED ITC must be spent on work that is conducted in Canada for the advancement of scientific knowledge or for the purpose of achieving a technological advancement. Remaining eligible expenditures after deduction of other government R&D funding and assistance are claimed SR&ED ITC.

(j) Finance income and finance expenses

Finance income comprises interest income on funds invested which is recognized as it accrues in profit or loss using the effective interest method. Finance expenses 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 expenses 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.

3. Material accounting policies (continued):

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.

(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.

3. Material accounting policies (continued):

(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 material 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 2 with no material impact on its consolidated financial statements.

Amendments to IAS 8, issued in February 2021, introduce a new definition of “accounting estimates” and clarify the distinction between changes in accounting estimates, changes in accounting policies, and the correction of errors. The amendments are effective for annual periods beginning on or after January 1,2023. Effective January 1, 2023, the Company adopted the Amendments of IAS 8 with no material impact on its consolidated financial statements.

Amendments to IAS 12, issued in May 2021, narrow the scope of the recognition exemption so that entities would be required to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences, such as leases and decommission liabilities. The amendments are effective for annual periods beginning on or after January 1, 2023. Effective January 1, 2023, the Company adopted the Amendments to IAS 12 with no material 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 IAS 1, issued in October 2022, added new disclosure requirements for situations where a liability is classified as non-current and the entity’s right to defer settlement is contingent on compliance with future covenants within twelve months after the reporting date. The disclosure should enable users of financial statements to understand the risk that the liability classified as non-current could become repayable within 12 months after the reporting period. 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.

Amendments to IFRS 7 and IAS 7, issued in May 2023, require entities to disclose information to enable users of financial statements to assess how arrangements that have characteristics of supplier finance arrangements (SFAS) affect an entity’s liabilities and cash flows, and to understand the effect of SFAs on an entity’s exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it. SFAs may also be referred to as supply chain finance or reverse factoring arrangements. SFAs are characterized by one or more financing provider offering to pay amounts an entity owes to its suppliers and the entity agreeing to pay the financing providers at the same date as, or a later date than, its suppliers are paid. 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.

Amendments to IFRS 16, issued in September 2022, address the measurement requirements for sale and leaseback transactions. The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for transactions for annual reporting periods beginning on or after January 1, 2024. The Company is currently assessing the impact of these amendment on its consolidated financial statements.

3. Material accounting policies (continued):

Amendments to IAS 21, issued in August 2023, specify when a currency is exchangeable into another currency and when it is not, specify how to determine whether a currency is exchangeable into another currency, how to determine the spot exchange rate when a currency lacks exchangeability, and requires the disclosure of additional information when a currency is not exchangeable. The amendments are effective for annual periods beginning on or after January 1, 2025. The Company is currently assessing the impact of these amendments 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, 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 December 31, 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, 2022, and 2023. As of December 31, 2023, the carrying value of capital contributions receivable is $475,261, which is included in assets held-for-sale, (2022 - $919,430).

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:

		December 31, 2023		December 31, 2022
Current assets	**$**	**2,471,694**	$	2,456,083
Non-current assets		**158,805**		522,826
Current liabilities		**(654,539)**		(583,297)
Non-current liabilities		**(829,318)**		(541,261)
Net assets	**$**	**1,146,642**	$	1,854,351

4. Minority interest (continued):

		Year ended December 31, 2023		Year ended December 31, 2022
Revenue	**$**	**2,668,796**	$	2,511,619
Income (loss) and comprehensive income (loss)	**$**	**(707,708)**	$	197,638

5. Assets and liabilities held-for-sale and discontinued operations:

In 2023, management made the strategic decision to sell the Company's 66.66% interest in STEM. In 2023, the Company received a non-binding offer for interest which included a $625,000 USD ($826,703 CND) deposit. Subsequent to December 31, 2023, the Company and the buyer have continued to advance their discussions toward the finalization of this sale. On February 7 and March 7, 2024, the Company received additional deposits of $450,000 USD respectively from the buyer. Based on management's assessment that it is more likely than not that the sale of STEM will proceed, the assets and liabilities of STEM have been reclassified as assets and liabilities held-for-sale in the consolidated statements of financial position. The following table illustrates the carrying value as of December 31, 2023 of the net assets of STEM.

5. Assets and liabilities held-for-sale and discontinued operations (continued):

	Note		December 31, 2023
Assets			
Current assets:			
Cash and cash equivalents		$	1,139,480
Trade and other receivables	7		286,275
Inventory	8		551,651
Capital contributions receivable	4		475,261
Other current assets			19,027
Total current assets			2,471,694
Non-current assets:			
Property and equipment	9		103,486
Intangible assets	10		55,319
Total non-current assets			158,805
Total assets		$	2,630,499
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	11	$	390,018
Contract liabilities	6		204,003
Note payable	14		27,112
Total current liabilities			621,133
Non-current liabilities:			
Contract liabilities	6		829,318
Total liabilities		$	1,450,451
Net assets held for sale		$	1,180,048

Operating results and cash flow of STEM have been classified as discontinued operations in the consolidated statements of loss and comprehensive loss, and as cash flow from discontinued operations respectively, for the years ended December 31, 2023 and 2022.

5. Assets and liabilities held-for-sale and discontinued operations (continued):

The following table illustrates the loss and comprehensive loss of the discontinued operations for the years ended December 31, 2023 and 2022.

	Note		Year ended December 31, 2023		Year ended December 31, 2022
Revenue					
License	**4,6**	**$**	**231,076**	$	581,431
Royalty			**389,902**		257,613
Sales of goods and services			**2,047,818**		1,672,575
Total Revenue			**2,668,796**		2,511,619
Cost of sales-sales of goods and services	**8**		**1,389,215**		1,210,419
Gross Profit			**1,279,581**		1,301,200
Expenses					
General and administration			**1,985,483**		1,189,433
Research			**22,384**		17,971
			2,007,867		1,207,404
Income (loss) from discontinued operations			**(728,286)**		93,796
Other expenses (income):					
Finance income			**(55,831)**		(84,888)
Finance expenses			**10,811**		5,549
Foreign exchange loss (gain)			**24,442**		(24,503)
Net other income from discontinued operations			**(20,578)**		(103,842)
Income (loss) and comprehensive income (loss) from discontinued operations		**$**	**(707,708)**	$	197,638
Income (loss) and comprehensive income (loss) from discontinued operations attributable to:					
Shareholders			**(471,758)**		131,746
Minority interest			**(235,950)**		65,892
Income (loss) and comprehensive income (loss) from discontinued operations		**$**	**(707,708)**	$	197,638

5. Assets and liabilities held-for-sale and discontinued operations (continued):

The following table is the statement of cash flows of the discontinued operations for the years ended December 31, 2023 and 2022.

	Note	Year ended December 31, 2023	Year ended December 31, 2022
Cash provided by (used in):			
Operating activities:			
Income (loss) and comprehensive income (loss)		$ (707,708)	$ 197,638
Adjustments for:			
Acquired manufacturing equipment expensed	14	17,815	-
Depreciation of property and equipment	9	14,486	5,688
Derecognition of property and equipment	9	3,499	-
Accretion income	4	(55,831)	(84,888)
Interest on note payable and other finance expenses	14	7,766	2,670
Change in the following:			
Trade and other receivables		186,897	(294,253)
Inventory		74,876	(173,457)
Other current assets		58,018	(74,373)
Accounts payable and accrued liabilities		(45,717)	11,498
Contract liabilities	6	377,903	217,917
Cash used in operating activities - discontinued operations		(67,996)	(191,560)
Financing activities:			
Capital contributions received for minority interest	4	500,000	500,000
Interest paid note payable and other finance expenses	14	(7,766)	(2,670)
Repayment of note payable	14	(22,430)	-
Cash provided by investing activities - discontinued operations		469,804	497,330
Investing activities:			
Purchase of property and equipment	9	(65,788)	(3,337)
Additions to intangible assets	10	(617)	(2,980)
Cash used in financing activities - discontinued operations		(66,405)	(6,317)
Increase in cash		335,403	299,453
Cash, beginning of period		804,077	504,624
Cash, end of period		$ 1,139,480	$ 804,077

Upon reclassifying STEM's assets and liabilities as held-for sale on December 31, 2023, the Company determined the net assets of STEM would be recovered principally through a sale transaction rather than through continuing use. The Company is required to measure at the lower of carrying amount and fair value less costs to sell (FVLCD), and depreciation on such assets to cease. Based on the potential purchase price, the Company determined the FVLCD to be greater than the carrying amount. Therefore, no impairment charge is recognized against STEM's assets.

6. 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 received in 2021 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 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 10-year term of the agreement, as well as an ongoing royalty on all Skout’s Honor’s product sales in North America that use the coactiv+™ technology.

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 and for the prepayment of future products. 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.

During the year ended December 31, 2022, STEM was awarded the Veterinary Oral Health Council Seal of Acceptance which, in accordance with the Dechra and Animalcare license and distribution agreements, triggered $1.3 million in milestone payments of which $500,000 USD was received in 2022 and $700,000 was received in 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.

6. License and distribution agreements (continued):

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 $500,000 USD	Skout's Honor License Fee Payment $50,000 USD	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	66,767	1,445,088
Revenue recognized in 2022 before payment received	-	-	-	-	(157,788)	-	-	(157,788)
Revenue recognized in 2023	(67,073)	(42,813)	(50,000)	(64,156)	(70,000)	(15,160)	(46,920)	$ (356,122)
Transferred to held-for-sale	-	-	(337,500)	(203,762)	(472,212)	-	(19,847)	(1,033,321)
Contract liabilities balance in continuing operations as of December 31, 2023	**$ 212,392**	**$ 67,249**	**$ -**	**$ -**	**$ -**	**$ 663,161**	**$ -**	**$ 942,802**
Contract liabilities balance in liabilities held-for-sale as of December 31, 2023	**$ -**	**$ -**	**$ 337,500**	**$ 203,762**	**$ 472,212**	**$ -**	**$ 19,847**	**$ 1,033,321**
Years left on agreements	**3.2**	**3.2**	**6.7**	**3.2**	**6.7**	**N/A**	**0.3**	

For the year ended December 31, 2023, the Company recognized license revenue of $109,886 (2022 - $93,488) in continuing operations and $231,076 (2022 - $581,432) in discontinued operations and sales of goods of $15,160 (2022 – $ nil) in continuing operations associated with initial and milestone payments received in prior and current periods.

7. Trade and other receivables:

	December 31, 2023	December 31, 2022
Trade receivables	**$ 290,210**	$ 321,009
Transferred to held-for-sale	**(286,275)**	-
	3,935	321,009
Other receivables	**99,167**	261,080
Trade and other receivables in continuing operations	**$ 103,102**	$ 582,089
Trade and other receivables in assets held-for-sale	**$ 286,275**	$ -

8. Inventory:

		December 31, 2023		December 31, 2022
Raw materials	**$**	**465,772**	$	328,334
Transferred to held-for-sale		**(368,134)**		-
		97,638		328,334
Work-in-progress		**7,288**		986
Transferred to held-for-sale		**(7,288)**		-
		-		986
Finished goods		**435,324**		437,131
Transferred to held-for-sale		**(282,545)**		-
		152,779		437,131
Allowance for inventory obsolescence		**(106,316)**		(2,980)
Transferred to held-for-sale		**106,316**		-
		-		(2,980)
Inventory in continuing operations	**$**	**250,417**	$	763,471
Inventory in assets held-for-sale	**$**	**551,651**	$	-

The cost of inventories recognized as an expense and included in cost of sales for the year ended December 31, 2023 was $16,603 (2022 - $32,846) in continuing operations and $716,590 (2022 - $674,200) in discontinued operations. In the year ended December 31, 2023, the Company has written down $11,322 (2022 – $7,359, recovery) in continuing operations and $112,499 (2022 - $32,659) in discontinued operations, related to discontinued and expired products, which is included in cost of sales.

9. Property and equipment:

The following is a summary of property and equipment as of December 31, 2023 in continuing operations and assets held-for-sale:

Property and equipment in continuing operations:

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
Transferred to held-for-sale - 2023	(1,869)	(57,962)	-	(59,831)
Additions - 2023	9,215	-	-	9,215
Change due to derecognition - 2023	(19,298)	(35,960)	-	(55,258)
Balance as of December 31, 2023	**$ 105,283**	**$ 297,592**	**$ 1,225,425**	**$ 1,628,300**

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
Transferred to held-for-sale - 2023	(280)	(35,595)	-	(35,875)
Additions - 2023	16,290	27,695	122,543	166,528
Change due to derecognition - 2023	(16,684)	(33,098)	-	(49,782)
Balance as of December 31, 2023	**$ 47,699**	**$ 188,097**	**$ 326,780**	**$ 562,576**

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 December 31, 2023	**$ 57,584**	**$ 109,495**	**$ 898,645**	**$ 1,065,724**

9. Property and equipment (continued):

Property and equipment in assets held-for-sale

Cost	Computer and Office Equipment	Manufacturing Equipment	Total
Balance as of December 31, 2022	-	-	-
Transferred in held-for-sale - 2023	1,869	57,962	59,831
Additions - 2023	1,376	96,139	97,515
Change due to derecognition - 2023	(1,869)	(13,111)	(14,980)
Balance as of December 31, 2023	**$ 1,376**	**$ 140,990**	**$ 142,366**

Depreciation	Computer and Office Equipment	Manufacturing Equipment	Total
Balance as of December 31, 2022	-	-	-
Transferred in held-for-sale - 2023	280	35,595	35,875
Additions - 2023	564	13,922	14,486
Change due to derecognition - 2023	(638)	(10,843)	(11,481)
Balance as of December 31, 2023	**$ 206**	**$ 38,674**	**$ 38,880**

Carrying amounts	Computer and Office Equipment	Manufacturing Equipment	Total
Balance as of December 31, 2022	$ -	$ -	$ -
Balance as of December 31, 2023	**$ 1,170**	**$ 102,316**	**$ 103,486**

10. Intangible assets:

The following is a summary of intangible assets as of December 31, 2023 in continuing operations and assets held-for-sale:

Intangible assets in continuing operations:

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
Transferred to held-for-sale - 2023		-		(54,702)		(54,702)
Additions - 2023		40,037		483		40,520
Change due to derecognition - 2023		(149,599)		-		(149,599)
Balance as of December 31, 2023	**$**	**908,570**	**$**	**64,528**	**$**	**973,098**

Accumulated amortization		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		72,062		-		72,062
Change due to derecognition - 2023		(142,675)		-		(142,675)
Balance as of December 31, 2023	**$**	**239,814**	**$**	**-**	**$**	**239,814**

Carrying amounts		Patents		Trademarks		Total
Balance as of December 31, 2022	$	707,705	$	118,747	$	826,452
Balance as of December 31, 2023	**$**	**668,756**	**$**	**64,528**	**$**	**733,284**

Intangible assets in assets held-for-sale

Cost		Trademarks
Balance as of December 31, 2022	**$**	**-**
Transferred in held-for-sale - 2023		54,702
Additions - 2023		617
Balance as of December 31, 2023	**$**	**55,319**

The Company has considered indicators of impairment as of December 31, 2023 and has determined that it was not feasible to purpose certain patents and accordingly has derecognized patents of $6,924 for the year ended December 31, 2023 (2022 - $nil) in continuing operations. To December 31, 2023, the Company has recorded aggregate impairment (derecognition) losses of $1,488,835 (2022 - $1,481,911) in continuing operations and $nil (2022 – $nil) in discontinued operations, primarily resulting from patents and patent applications that were abandoned. Amortization and derecognition expenses are recognized in research expense.

11. Accounts payable and accrued liabilities:

		December 31, 2023		December 31, 2022
Trade payables	$	489,382	$	602,803
Transferred to held-for-sale		(52,374)		-
		437,008		602,803
Non-trade payables and accrued expenses		1,511,632		1,244,892
Transferred to held-for-sale		(337,644)		-
		1,173,988		1,244,892
Accounts payable and accrued liabilities in continuing operations	$	1,610,996	$	1,847,695
Accounts payable and accrued liabilities in liabilities held-for-sale	$	390,018	$	-

12. Due to related party:

The due to related party balance of $8,066 as of December 31, 2023 (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.

13. Loans payable:

(a) Loan payable

The Company has a non-revolving term loan credit agreement (the "Credit Agreement") with Pivot Financial Inc. ("Pivot"). 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, 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 year ended December 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.

During the year ended December 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 $6,000,000 and extending the maturity date of the loan until November 30, 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 November 30, 2023 maturity date.

During the year December 31, 2023, the Company entered into a further amended and restated credit agreement with Pivot, extending the maturity date to March 31, 2024. The amended and restated credit facility bears an interest rate of 15% with interest calculated and payable monthly by the last business day of each calendar month.

13. Loans payable (continued):

The balance of the Pivot loan owing as of December 31, 2023, including accrued interest, is $6,625,679 (2022 - $4,000,000). The terms of the latest amended and restated agreement include 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 December 31, 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 December 31, 2023 (2022 – $nil). The facility is subject to STEM fulfilling a specific working capital covenant. STEM was in compliance with this covenant as of December 31, 2023.

The Company also has access to commercial credit card facilities with an aggregate credit limit of $90,000. As of December 31, 2023, the related credit card balances outstanding included in accounts payable and accrued liabilities on the consolidated statement of financial position is $31,789 (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 received a total of $2,491,267 from PrairiesCan in the form of interest-free repayable contributions over three years on an expense incurred basis retroactive to April 1, 2019. The average effective interest rate is14%. Repayment of these contributions has been taking place over five years since April 2023. As of December 31, 2023, the outstanding balance of repayable contributions is $2,113,267 (2022 - $2,481,267). As of December 31, 2023, the fair value of the outstanding repayable contributions included in Government loans balance of the Consolidated Statement of Financial Position is $1,602,226 (2022 - $1,734,745). There are no further funding contributions receivable from PrairiesCan.

During the year ended December 31, 2023, the Company recorded a fair value adjustment of $3,770 (2022 - $254,898) on repayable contributions of $10,000 (2022 - $677,160) during the period. This amount has been offset by accretion expense of $239,251 (2022 - $227,518). During the year ended December 31, 2023, the Company repaid $378,000 of the contributions (2022 – $nil).

The repayment schedule of the remaining contributions is as follows:

2024	$	504,000
2025		504,000
2026		504,000
2027		504,000
2028		97,267
	$	2,113,267

In 2020 and 2021, the Company also 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 December 31, 2023 and December 31, 2022:

13. Loans payable (continued):

	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 adjustment 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 adjustment on loans - 2023	(3,770)	-	(3,770)
Repayment - 2023	(378,000)	-	(378,000)
Accretion expense - 2023	239,251	5,539	244,790
Balance as of December 31, 2023	**$ 1,602,226**	**$ 40,000**	**$ 1,642,226**
Government loans - current	299,763	40,000	339,763
Government loans - long-term	1,302,463	-	1,302,463
	$ 1,602,226	**$ 40,000**	**$ 1,642,226**

14. 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 require 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 December 31, 2023, the balance of note payable recorded in the consolidated statements of financial Position was $27,112 (2022, - $nil) in liabilities held-for-sale.

15. 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 December 31, 2023, the carrying amount of lease liabilities was $983,388 (2022 - $1,087,634). The breakdown of contractual undiscounted cash flows for lease liabilities as of December 31, 2023 and December 31, 2022 is as follows:

	December 31, 2023	December 31, 2022
Less than one year	**$ 166,669**	$ 166,668
One to five years	**666,674**	666,672
Over five years	**383,544**	550,216
Discounting	**(233,499)**	(295,922)
	$ 983,388	$ 1,087,634

15. Lease liabilities (continued):

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		(166,669)		-		(166,669)
Interest paid - 2023		62,423		-		62,423
Balance as of December 31, 2023	**$**	**983,388**	**$**	**-**	**$**	**983,388**

The following is a summary of expenses recognized in the consolidated statements of loss and comprehensive Loss related to lease liabilities and short-term leases:

		Year ended December 31, 2023		Year ended December 31, 2022
Interest on lease liabilities - continuing operations	**$**	**62,423**	$	69,633
Expenses related to variable lease payments - continuing operations	**$**	**18,923**	$	14,563
Expenses related to short-term leases - discontinued operations	**$**	**136,298**	$	101,547

For the year ended December 31, 2023, the total cash outflow for leases was $185,592 (2022 - $211,633) in continuing operations and $136,298 (2022 - $101,547) in discontinued operations.

16. Income tax

(a) Income tax provision

The reconciliation of the income tax provision using statutory income tax rates prevailing in Canada with the income tax expense reported in the financial statements is as follows:

	2023			2022		
	Continuing operations	**Discontinued Operations**	**Total**	Continuing operations	Discontinued Operations	Total
Canadian federal and provincial income tax rates at 27% - (2022 - 27%)	**$ (1,231,833)**	**$ (191,081)**	**$ (1,422,914)**	$ (1,085,842)	$ 53,362	$ (1,032,480)
Change in unrecognized deductible temporary differences and unused tax losses	**1,157,558**	**204,757**	**1,362,315**	1,057,810	(31,233)	1,026,577
Permanent differences and other	**74,275**	**(13,676)**	**60,599**	28,032	(22,129)	5,903
	$ -	**$ -**	**$ -**	$ -	$ -	$ -

The Company recognized no income taxes in the consolidated statements of loss and comprehensive loss as it has been incurring losses since inception.

16. Income tax (continued):

(b) Unrecognized deferred tax assets:

Deferred tax asset based on temporary differences that are not recognized are as follows:

	2023			2022		
	Continuing operations	**Discontinued Operations**	**Total**	Continuing operations	Discontinued Operations	Total
Tax losses	$ -	$ -	$ -	$ -	$ -	$ 7,980,198
Property and equipment	17,061	5,786	22,847	10,833	5,320	21,992
Scientific research and experimental development costs	-	-	-	-	-	972,883
Financing costs	76,204	1,371	77,575	39,939	1,940	41,879
Deferred revenue	254,556	278,997	533,553	105,172	176,963	282,135
Interest expense on note payable	-	2,044	2,044	-	-	-
Stock based compensation	110,629	-	110,629	90,148	-	333,061
	$ 458,450	**$ 288,198**	**$ 746,648**	$ 246,091	$ 184,223	$ 9,632,148

Given the Company's past losses, management does not believe that it is probable that the Company can utilize its deferred tax assets and therefore it had not recognized any amount in the consolidated statements of financial position.

(c) Deferred tax liabilities:

Deferred tax liabilities are as follows:

	2023			2022		
	Continuing operations	**Discontinued Operations**	**Total**	Continuing operations	Discontinued Operations	Total
Intangible assets	$ 122,760	$ 9,201	$ 131,961	$ 117,188	$ 7,261	$ 124,449
Property and equipment	-	-	-	-	-	-
Accounts payable and accrued liabilities	197,709	278,997	476,706	(74,153)	17,693	102,810
Long-term government loan	137,981	-	137,981	203,056	-	203,056
	$ 458,450	**$ 288,198**	**$ 746,648**	$ 246,091	$ 24,954	$ 430,315

Unrecognized deductible temporary differences are as follows:

2023			2022		
Continuing operations	**Discontinued Operations**	**Total**	Continuing operations	Discontinued Operations	Total
$ 10,049,242	**$ 514,906**	**$ 10,564,148**	$ 8,891,684	$ 310,149	$ 9,201,833

16. Income tax (continued):

(d) As of December 31, 2023, the Company has income tax loss carry forwards of approximately $32,026,000 ($2022 - $28,429,000) from continuing operations to reduce future taxable income which expires between 2026 and 2043 and of approximately $1,905,000 (2022 - $1,127,000) from discontinued operations to reduce future taxable income which expires between 2040 and 2043.

As of December 31 ,2023, the Company has unused scientific research and development tax credits of approximately $1,800,000 (2022 - $1,660,000) in continuing operations available for carry forward which expires between 2024 and 2043.

17. 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	764,365		137,586
Issuance of common shares	6,250,000		415,841
Balance as of December 31, 2023	131,844,567	$	23,686,359

During the year ended December 31, 2023, the Company completed a private placement of 6,250,000 units at a price of $0.08 per unit for aggregate gross proceeds of $500,000. Each unit is comprised of one common share and one-half of one share purchase warrant. Issuance costs associated with the common shares were $16,772. The value of these warrants was determined to be $67,387.

(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 December 31, 2023, an aggregate maximum of 1,148,302 (2022 – 1,148,302) common share options are reserved for issuance under the Plan with 1,148,302 (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

17. Share capital (continued):

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 December 31, 2023 and December 31, 2022 are as follows:

	December 31, 2023			December 31, 2022		
	Options		**Weighted average exercise price**	Options		Weighted average exercise price
Balance, beginning of period	**-**	**$**	**-**	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 year ended December 31, 2023, the Company did not record any stock option compensation expenses (2022 – $8,472, recovery).

(d) Restricted share unit plan

The Company has an equity-settled Restricted Share Unit Plan ("RSU 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 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 December 31, 2023, an aggregate maximum of 23,720,905 (2022 – 21,817,738) restricted share units are reserved for issuance under the Plan with 4,753,363 (2022 – 11,094,917) of those common share options remaining available.

During the year ended December 31, 2023, the Company issued 9,978,809 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.

17. Share capital (continued):

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

	December 31, 2023	December 31, 2022
Balance, beginning of period	**10,722,821**	10,739,488
Additions	**9,978,809**	-
Expired	**(1,042,422)**	-
Forfeited	**(691,666)**	-
Redeemed	**(764,365)**	(16,667)
Balance, end of period	**18,203,177**	10,722,821
Restricted share units exercisable, end of period	**8,499,368**	9,449,033

During the year ended December 31, 2023, the Company recorded RSU compensation expense of $441,931 (2022 - $288,071) with a corresponding credit 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 year ended December 31, 2023, the Company issued 2,500,000 warrants to a third-party for their guarantee of the $1,000,000 increase in the credit facility related to an amended credit agreement signed with Pivot on March 1, 2023. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.10 and has an expiry date of September 11, 2024.

During the year ended December 31, 2023, the Company issued 2,500,000 warrants to Pivot Financial as part of the further amended and restated credit agreement signed with Pivot on September 11, 2023. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.10 and has an expiry date of September 11, 2024.

During the year ended December 31, 2023, the Company issued 3,125,000 warrants associated with its $500,000 private placement which closed on September 11, 2023. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.10 and has an expiry date of March 11, 2025.

Issuance costs associated with warrants that were issued in 2023 were $9,834.

During the years ended December 31, 2023 and December 31, 2022, no warrants were exercised or expired.

17. Share capital (continued):

Warrants outstanding as of December 31, 2023 and December 31, 2022 are as follows:

	December 31, 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	**8,125,000**	**$**	**140,600**	**$**	**0.10**	-	$	-	$	-
Expired	**-**	**$**	**-**	**$**	**-**	(35,669,192)	$	(1,662,385)	$	0.18
Balance as of December 31, 2023	**8,125,000**	**$**	**140,600**	**$**	**0.10**	-	$	-	$	0.18
Weighted average remaining contractual life			**0.89**					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:

Expected option life	**1.19 year**
Risk free interest rate	**3.94%**
Expected volatility	**68.89%**
Grant-date share price	**0.08**
Warrant exercise price	**0.10**

(f) Per share amounts

The weighted average number of common voting shares outstanding for the year ended December 31, 2023 and 2022 was 127,119,957 and 120,702,074 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.

18. Commitments and contingencies:

(a) Commitments

As of December 31, 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:

		USD		CND
2024	$	34,880	$	-
2025	$	22,440	$	-
2026	$	10,000	$	-
2027	$	10,000	$	-
2028 and after	$	10,000	$	-
	$	**87,320**	**$**	**-**

18. Commitments and contingencies (continued):

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 2024 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.

19. Government and other assistance:

For the year ended December 31, 2023, the Company recorded $232,858 in government assistance (2022 - $898,691).

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

As of December 31, 2023, other receivables included $82,431 (2022 – $97,462) of government assistance receivable.

20. 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.

Board of Director compensation includes board fees and RSUs. President & CEO and CFO compensation includes base salaries, a short-term incentive plan and RSUs. The following table details the compensation recorded for key management personnel:

	Year ended December 31, 2023	Year ended December 31, 2022
Salaries, fees and short-term employee benefits	**$ 453,375**	$ 470,013
Share-based payments expense	**216,757**	245,039
	$ 670,132	$ 715,052

(b) Key management personnel and director transactions

Directors and key management personnel control 26.1% of the voting shares of the Company.

20. Related parties (continued):

The balance of due to related party as of December 31, 2023 is accumulated interest on related party advances of $8,066 (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.

During the year ended December 31, 2022, the loan receivable, which represents cash advances provided to a company which is wholly owned by the President & CEO of Kane Biotech as part of a demand loan of up to $150,000 approved by the Board of Directors in 2019, increased to $150,000 and was subsequently derecognized along with accumulated interest of $28,203. For the year ended December 31, 2022, the Company recorded a provision $178,203 of this related party loan receivable, included in general and administration on the consolidated statement of loss and comprehensive loss. As of December 31, 2023 and December 31, 2022, the balance of this loan receivable is nil.

Accrued liabilities owing to key management personnel was $nil as of December 31, 2023 and December 31, 2022.

21. Expenses by nature:

Expenses incurred for the year ended December 31, 2023 and 2022 respectively in continuing operations and discontinued operations are as follows:

Expenses by nature - continuing operations:

		Year ended December 31, 2023		Year ended December 31, 2022
Personnel expenses				
Wages and salaries	**$**	**1,217,619**	$	1,673,246
Employee benefits and insurance premiums		**105,741**		130,393
Share-based payments		**441,931**		279,599
		1,765,291		2,083,238
Depreciation, amortization and write-downs		**250,990**		262,336
Science consumables and contract research		**471,565**		912,284
Occupancy		**29,418**		(6,925)
License fees		**13,607**		12,717
Investor relations		**251,079**		207,431
Consulting		**214,589**		204,872
Marketing		**40,370**		179,535
Other		**662,805**		612,837
Less: Government assistance		**(232,858)**		(898,691)
	$	**3,466,856**	$	3,569,634

21. Expenses by nature (continued):

Expenses by nature - discontinued operations:

		Year ended December 31, 2023		Year ended December 31, 2022
Personnel expenses				
Wages and salaries		**1,242,865**	$	663,899
Employee benefits and insurance premiums		**36,613**		15,547
		1,279,478		679,446
Depreciation, amortization and write-downs		**17,985**		5,688
Science consumables and contract research		**1,357**		4,998
Occupancy		**48,619**		33,180
Consulting		**2,055**		16,890
Marketing		**441,949**		310,738
Other		**216,424**		156,464
	$	**2,007,867**	$	1,207,404

22. 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 year ended December 31, 2023 and 2022 is as follows:

22. Segmented information (continued):

	Year ended December 31, 2023	Year ended December 31, 2023	Year ended December 31, 2023
Revenue	**STEM**	**All Other Segments**	**Total**
License	$ 231,076	$ 109,886	$ 340,962
Royalty	389,902	-	389,902
Sales of goods and services	2,047,818	39,094	2,086,912
Total Revenue	2,668,796	148,980	2,817,776
Cost of sales-sales of goods and services	1,389,215	39,510	1,428,725
Gross Profit	1,279,581	109,470	1,389,051
Expenses			
General and administration	1,985,483	2,412,956	4,398,439
Research	22,384	1,053,900	1,076,284
	2,007,867	3,466,856	5,474,723
Loss from operations	(728,286)	(3,357,386)	(4,085,672)
Other expenses (income):			
Finance income	(55,831)	(5,665)	(61,496)
Finance expenses	10,811	1,215,015	1,225,826
Fair value adjustment - government loan	-	(3,770)	(3,770)
Foreign exchange loss (gain)	24,442	(621)	23,821
Net other expenses (income)	(20,578)	1,204,959	1,184,381
Loss and comprehensive loss from continuing operations	-	(4,562,345)	(4,562,345)
Loss and comprehensive loss from discontinued operations	(707,708)	-	(707,708)
Net loss and comprehensive loss	$ (707,708)	$ (4,562,345)	$ (5,270,053)
Net loss and comprehensive loss attributable to:			
Shareholders:			
Continuing operations	$ -	$ (4,562,345)	$ (4,562,345)
Discontinuing operations	(471,758)	-	(471,758)
	(471,758)	(4,562,345)	(5,034,103)
Minority interest:			
Continuing operations	-	-	-
Discontinued operations	(235,950)	-	(235,950)
	$ (235,950)	$ -	$ (235,950)
Loss and comprehensive loss for the period	$ (707,708)	$ (4,562,345)	$ (5,270,053)

22. Segmented information (continued):

	Year ended December 31, 2022 STEM	Year ended December 31, 2022 All Other Segments	Year ended December 31, 2022 Total
Revenue			
License	$ 581,431	$ 93,488	$ 674,919
Royalty	257,613	-	257,613
Sales of goods and services	1,672,575	63,245	1,735,820
Total Revenue	2,511,619	156,733	2,668,352
Cost of sales-sales of goods and services	1,210,419	44,704	1,255,123
Gross Profit	1,301,200	112,029	1,413,229
Expenses			
General and administration	1,189,433	2,533,613	3,723,046
Research	17,971	1,036,021	1,053,992
	1,207,404	3,569,634	4,777,038
Income (loss) from operations	93,796	(3,457,605)	(3,363,809)
Other expenses (income):			
Finance income	(84,888)	(15,463)	(100,351)
Finance expenses	5,549	816,664	822,213
Fair value adjustment - government loan	-	(254,898)	(254,898)
Foreign exchange loss (gain)	(24,503)	17,730	(6,773)
Net other expenses (income)	(103,842)	564,033	460,191
Loss and comprehensive loss from continuing operations	-	(4,021,638)	(4,021,638)
Income and comprehensive income from discontinued operations	197,638	-	197,638
Net income (loss) and comprehensive income (loss)	$ 197,638	$ (4,021,638)	$ (3,824,000)
Net income (loss) and comprehensive income (loss) attributable to:			
Shareholders	131,746	(4,021,638)	(3,889,892)
Minority interest	65,892	-	65,892
Income (loss) and comprehensive income (loss)	197,638	(4,021,638)	(3,824,000)

Information regarding the financial position by operating segment as of December 31, 2023 and 2022 is as follows:

	Year ended December 31, 2023 Stem	Year ended December 31, 2023 All Other Segments	Year ended December 31, 2023 Total
Current assets	$ 2,471,694	$ 1,251,412	$ 3,723,106
Non-current assets	158,805	1,799,008	1,957,813
Current liabilities	(621,133)	(10,273,267)	(10,894,400)
Non-current liabilities	(829,318)	(2,366,593)	(3,195,911)
Less net assets and liabilities held-for-sale	(1,180,048)	-	(1,180,048)
Total net liabilties in continuing operations	**$ -**	**$ (9,589,440)**	**$ (9,589,440)**

22. Segmented information (continued):

	Year ended December 31, 2022 Stem	Year ended December 31, 2022 All Other Segments	Year ended December 31, 2022 Total
Current assets	$ 2,456,083	$ 640,662	$ 3,096,745
Non-current assets	522,826	2,000,264	2,523,090
Current liabilities	$ (583,297)	$ (5,758,265)	$ (6,341,562)
Non-current liabilities	(541,261)	(2,874,723)	(3,415,984)
Total net assets (liabilities)	**$ 1,854,351**	**$ (5,992,062)**	**$ (4,137,711)**

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 for the years ended December 31, 2023 and 2022 is as follows:

	Year ended December 31, 2023			Year ended December 31, 2022		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
Domestic	**10,303**	**1,360,584**	**$ 1,370,887**	$ 35,232	$ 1,153,487	$ 1,188,719
International	**138,677**	**1,308,212**	**1,446,889**	121,501	1,358,132	1,479,633
	148,980	**2,668,796**	**$ 2,817,776**	$ 156,733	$ 2,511,619	$ 2,668,352

Three of the Company's largest customers accounted for 65% of the Company's total sales for the year ended December 31, 2023 (2022 – three customers, 65%).

23. 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 December 31, 2023 has a fair value of $1,642,226 (2022 - $1,769,206).

Financial assets and liabilities that are recognized on the consolidated statements 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).

24. Financial risk management:

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange and interest rate risks), credit risk and liquidity risk. Risk management is the responsibility of the Company, which identifies, evaluates and, where appropriate, mitigates financial risks.

(a) Foreign exchange risk:

The Company operates in Canada and has relationships with entities in other countries. Foreign exchange risk arises because the cost of transactions denominated in foreign currencies may vary due to changes in exchange rates.

Balances in foreign currencies as of December 31 in continuing operations were approximately**:**

		2023		2022
		U.S. Dollars		U.S. Dollars
Cash and cash equivalents	**$**	**451,565**	$	416,378
Trade and other receivables		**26,452**		130,754
Accounts payables and accrued liabilities		**(214,495)**		(299,576)
	$	**263,523**	$	247,556

Fluctuations in the U.S. dollar exchange rates may potentially have a significant impact on the Company's operations results. The Company estimates that a decrease in the Canadian to US dollar exchange rate of 10% would result in net income of $26,352 (2022 - $24,756) in continuing operations.

(b) Interest rate risk:

The Company is exposed to interest rate risk to the extent that short-term deposits are at a floating short-term rate of interest and their market value will vary with the change in short-term market interest rates. The Company's maximum exposure to interest rate risk is based on the effective interest rate and the current carrying value of these assets.

There is a risk that future cash flows from invested cash, cash equivalents and short-term deposits will vary as the market interest rates fluctuate because these investments earn interest at market rates. Based on the December 31, 2023 balance of approximately $50,000 (2022 - $50,107), a variation of 100 basis points in the market interest rate would not affect loss and comprehensive loss by a material amount. For the year ended December 31, 2023, the Company recorded interest income of $5,009 (2022 - $4,011) in relation to these assets.

There is a risk that the interest rate on the loan payable will vary as market interest rates fluctuate if further amendments to the Credit Agreement are required. There is no interest rate risk on government loans as they do not bear interest and are expected to be repaid by maturity.

(c) Credit risk:

The Company limits its exposure to credit risk by investing only in banks that have a strong credit rating. Trade and other receivables are subject to normal credit risk. As of December 31, 2023, the maximum exposure to credit risk is equal to the carrying value of the trade receivables which is $290,210 (2022 - $321,009). The Company regularly assesses the trade and other receivables and takes action to collect the amounts or provide adequate reserves against doubtful accounts. The Company currently has no reserve for doubtful accounts as there have been no bad debts to date except the related party loan receivable with the related interest was written off in 2022 with a total of $178,203. As of December 31, 2023, the Company has accounts receivable that are past due but not impaired of $2,063 (2022 - $8,112) in continuing operations and $125,562 (2022 - $116,386) in discontinued operations, which were all collected subsequent to December 31, 2023.

(d) Liquidity risk:

Liquidity risk is the risk that the current financial obligations exceed the cash available to satisfy those obligations at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available cash in order to meet its liquidity requirements. The Company achieves this by primarily relying on private placement offerings of common shares and warrants.

The following table summarizes the Company’s financial liabilities with corresponding maturity in continuing operations.

24. Financial risk management(continued):

	< 1 Year	1-3 years	3-5 years	5-10 years	Total
Due to related party	$ 8,066	$ -	$ -	$ -	$ 8,066
Government loans	544,000	1,008,000	601,267		2,153,267
Loan payable	6,625,679	-	-	-	6,625,679
Accounts payable and accrued liabilities	1,610,996	-	-	-	1,610,996
	$ 8,788,741	$ 1,008,000	$ 601,267	$ -	$ 10,398,008

(e) Capital management:

The Company's primary objective when managing capital, defined as shares, warrants, loan payable and long-term government loans, is to ensure that it has sufficient cash resources to fund its development and commercialization activities and to maintain its ongoing operations.

As of December 31, 2023, the Company's capital was $ 32,094,864 (2022 - $28,902,138).

To fund its activities, the Company relies primarily on private placements of its common shares. To secure additional capital the Company may attempt to raise funds through the issuance of equity, by securing strategic partners or by borrowing. The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital management strategy during the year ended December 31, 2023.

25. Changes in liabilities from financing activities

Changes in liabilities from financing activities during the year ended December 31, 2023 and 2022 are as follows in continuing operations:

	January 1, 2022	Cash - Principal	Cash - Interest	Interest Accrued	Non-Cash	December 31, 2022
Long-term borrowings	$ 1,115,635	$ 677,160	$ -	$ 231,309	$ (254,898)	$ 1,769,206
Short-term borrowings	2,387,106	1,700,000	(548,291)	469,251	-	4,008,066
	$ 3,502,741	$ 2,377,160	$ (548,291)	$ 700,560	$ (254,898)	$ 5,777,272

	January 1, 2023	**Cash - Principal**	**Cash - Interest**	**Interest Accrued**	**Non-Cash**	**December 31, 2023**
Long-term borrowings	$ 1,769,206	$ (189,128)	$ (178,872)	$ 244,790	$ (3,770)	$ 1,642,226
Short-term borrowings	4,008,066	2,000,000	(195,566)	821,245	-	6,633,745
	$ 5,777,272	$ 1,810,872	$ (374,438)	$ 1,066,035	$ (3,770)	$ 8,275,971

26. Subsequent event:

(a) On February 7, 2024, the Company received an additional deposit of $450,000 USD related to the offer it received in the year ended December 31, 2023 for the sale of its 66.66% interest in STEM.

(b) On March 7, 2024, the Company received a further additional deposit of $450,000 USD related to the offer it received in the year ended December 31, 2023 for the sale of its 66.66% interest in STEM.