Filament Health Corp.
Consolidated Financial Statements

For the year ended December 31, 2023

(Expressed in Canadian Dollars)

Filament Health Corp.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Shareholders of Filament Health Corp.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Filament Health Corp. (the "Company") as at December 31, 2023 and the related consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended and the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the period then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The consolidated financial statements of the Company as at December 31, 2022, and for the year then ended, were audited by other auditors whose report dated March 31, 2023, expressed an unqualified opinion on those consolidated financial statements.

Material Uncertainty Related to Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has not yet achieved profitable operations, has negative cash flows from operations, and has an accumulated deficit that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Investment in Joint Venture

Critical Audit Matter Description

On January 9, 2023, the Company entered a transaction to form a joint venture to create Magdalena Biosciences Inc. ("Magdalena" or the "Joint Venture"), a development company specializing in novel, natural prescription medicines derived from plants for mental health indications, with Jaguar Health Inc. ("Jaguar") and One Small Plant Capital LLC ("One Small Plant").

As discussed in Note 3 and Note 5 to the consolidated financial statements, valuation of the investment in an associate or joint venture is measured based on the costs incurred or amount invested into the associate or joint venture. On formation of the Joint Venture, the Company entered into a services agreement to provide Magdalena with its expertise and technology.

This matter was determined to be a critical audit matter as significant judgment was required to assess whether the Company has control, joint control or significant influence over Magdalena. Once it was determined that the arrangement was a joint venture to be accounted for using the equity method under IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28"), significant judgment was required to determine the initial valuation and measurement of the investment in Magdalena as well as the subsequent accounting for the deferred revenue arising from the transaction. This resulted in an increased extent of audit effort, including the involvement of internal valuation specialists.

Audit response

We responded to this matter by performing audit procedures over the investment in joint venture. Our audit work in relation to this included, but was not restricted to, the following:

- We obtained agreements related to the Joint Venture and evaluated the substance of the arrangement and indicators of control;
- We obtained management's assessment of control and evaluated the reasonableness of their conclusion that the joint venture should be accounted using the equity method in accordance with IAS 28. Further, we assessed management's application of the guidance specific to contributions of non-monetary assets.
- With the assistance of internal valuation specialists, we examined management's assumptions used to determine the initial valuation of the investment in Magdalena and recalculated the appropriate equity pick up on application of the equity method;
- We obtained and assessed the accounting records of Magdalena and examined relevant supporting documents;
- We evaluated management's assessment related to the subsequent measurement of deferred revenue resulting from the recognition of the investment in Magdalena.

Licensing revenue recognition

Critical Audit Matter Description

As discussed in Note 3 and Note 4 to the consolidated financial statements, the Company generates revenue from licensing agreements for its proprietary drug formulation.

Agreements for licensing revenue are not standardized and may include upfront fees, milestone payments or post-commercialization royalties on any future sales and other terms. Management analyzes each agreement to identify all performance obligations, determine and allocate the transaction price on a relative stand-alone selling price basis and recognize revenue on the achievement of revenue recognition criteria.

Auditing licensing revenue is complex given the non-standard nature of the licensing revenue agreements. Management exercised significant judgment in identifying performance obligations and in determining the amount and timing of revenue to be recognized, given the variable nature of the consideration. This in turn resulted in an increased extent of audit effort, and a high degree of auditor judgment and subjectivity in performing our audit procedures and in evaluating the audit evidence obtained.

Audit response

We responded to this matter by performing audit procedures relating to licensing revenue recognition. Our audit work in relation to this included, but was not restricted to, the following:

- We obtained the executed licensing agreements and reviewed the terms therein;
- We assessed management's identification of performance obligations, the determination of whether the license is distinct from the other goods and services provided in the contract, and management's assessment of revenue recognition;
- We obtained management's analysis and determined the reasonableness of any variable consideration recognized on revenue on ongoing contracts by inspecting sales invoices, correspondence with customers, and shipping documents, where applicable.

Going concern

Critical Audit Matter Description

As described in Note 1 to the consolidated financial statements, there are material uncertainties regarding the Company's ability to execute its business plan and continue in the normal course of operations. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing.

We identified the going concern assessment of the Company as a critical audit matter due to the significant assumptions and judgments made by management in estimating future cash flows, which are subject to high degree of uncertainty.

This matter is also described in the "Material Uncertainty Related to Going Concern" section of our report.

Audit response

We responded to this matter by performing audit procedures relating to going concern. Our audit work in relation to this included, but was not restricted to, the following:

- Obtaining an understanding from management on the Company's future plans for the operations, including financing arrangements.
- Evaluating the key assumptions used in management's model to estimate future cash flows by comparing assumptions used by management against historical performance, budgets, economic and industry indicators and publicly available information.
- Comparing the assumptions related to revenue projections to the underlying revenue agreements.

- Assessing the adequacy of the going concern disclosure included in Note 1 to the consolidated financial statements and considering whether these appropriately reflected the assessments that management performed.

MNP LLP

Chartered Professional Accountants

We have served as the Company's auditor since 2023.

Calgary, Canada

April 2, 2024

Filament Health Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Notes		December 31, 2023		December 31, 2022
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents		$	1,828,218	$	2,846,740
Receivables	15		881,468		211,557
Prepayments			22,387		114,167
			2,732,073		3,172,464
Deposits			72,902		95,894
Investment in joint venture	5		1,449,980		-
Property, plant, and equipment	6		509,656		524,738
Right-of-use asset	7		351,498		487,561
Licenses and intellectual property	8		460,000		460,000
Total assets		$	5,576,109	$	4,740,657
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	11	$	1,426,162	$	293,600
Lease obligation	7		159,704		123,245
			1,585,866		416,845
Convertible debenture	10		1,045,644		719,190
Deferred revenue	5		201,434		-
Long-term lease obligation	7		251,596		411,300
Total liabilities			3,084,540		1,547,335
SHAREHOLDER’S EQUITY					
Share capital	12		28,101,670		24,672,263
Share subscription receivable	12		(50,000)		-
Contributed surplus	12		5,650,391		4,349,504
Accumulated other comprehensive income (loss)	5		(60,015)		-
Deficit			(31,150,477)		(25,828,445)
			2,491,569		3,193,322
Total liabilities and shareholders’ equity		$	5,576,109	$	4,740,657

Nature of operations and going concern (Note 1)

Commitments (Note 17)

Subsequent Events (Note 20)

Approved and authorized by the Board of Directors:

“Benjamin Lightburn”	*“Jonathan Conlin”*
Chief Executive Officer and Director	**Director**

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

Filament Health Corp.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Notes		Year ended December 31, 2023		Year ended December 31, 2022
REVENUE	5, 14	$	2,130,974	$	364,500
EXPENSES					
Depreciation	6, 7		208,797		200,645
General and administrative			228,141		34,976
Insurance			212,142		403,209
Interest and accretion	7, 10		374,567		184,670
Professional and consulting fees	11, 12		2,944,506		1,390,490
Research and development			793,551		839,156
Sales and marketing			430,594		829,614
Transfer agent and filing fees			408,436		484,945
Travel			115,028		112,040
Wages and benefits	11, 12		1,709,423		1,583,973
			(7,425,185)		(6,063,718)
Net loss before other items			(5,294,211)		(5,699,218)
OTHER ITEMS					
Bad debt expense			-		(190,067)
Filament share of Magdalena loss	5		(68,966)		-
Gain on settlement of debt	12		-		20,968
Impairment on goodwill	8		-		(10,682,334)
Other income (expenses)			41,145		13,648
Total other items			(27,821)		(10,837,785)
Net loss before income tax			(5,322,032)		(16,537,003)
Deferred income tax recovery			-		70,538
Net loss for the year			**(5,322,032)**		**(16,466,465)**
OTHER COMPRENSIVE INCOME (LOSS)					
Exchange difference on translating foreign operations	5		(60,015)		**-**
Comprehensive loss for the year		**$**	**(5,382,047)**	**$**	**(16,466,465)**
Loss per share attributable to shareholders – basic and diluted		**$**	**(0.03)**	**$**	**(0.10)**
Weighted average number of common shares outstanding – basic and diluted			187,682,017		169,646,834

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

Filament Health Corp.
Consolidated Statements of Cash Flows
(Unaudited – Expressed in Canadian Dollars)

	Notes	Year ended December 31, 2023	2022 (Note 19)
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net and comprehensive loss for the year		**$ (5,322,032)**	**$ (16,466,465)**
Items not involving cash:			
Bad debt expense	9	-	190,067
Depreciation	6, 7	208,797	200,645
Deferred income tax recovery	18	-	(70,538)
Deferred service revenue recognition from Magdalena	5	(1,540,027)	-
Filament share of Magdalena loss	5	68,966	-
Gain on settlement of debt	12	-	(20,968)
Impairment on goodwill	8	-	10,682,334
Interest and accretion	7, 10	326,454	125,441
Professional and consulting fees	11, 12	777,515	788,098
RSUs converted to shares issued for settlement of AP	12	209,407	-
Shares issued for services	12	-	57,090
Wages and benefits	11, 12	343,372	307,278
Changes in non-cash working capital items:			
Receivables		(669,911)	(85,255)
Prepayments and deposits		114,772	402,172
Accounts payable and accrued liabilities		1,132,562	(35,883)
Deferred revenue		162,500	-
		(4,187,625)	**(3,925,984)**
INVESTING ACTIVITIES			
Loan provided to Filament Foundation	9	-	(38,701)
Purchase of property and equipment	6	(57,652)	-
Purchase of property and equipment, net of Psilo PPE acquisition	6	-	(32,156)
		(57,652)	**(70,857)**
FINANCING ACTIVITIES			
Convertible debenture	10	-	1,250,000
Lease payments	7	(123,245)	(105,012)
Loan receivable	9	-	(280,552)
Shares issued for cash	12	3,350,000	1,250,080
Shares issued on exercise of stock options	12	-	100,000
		3,226,755	**2,214,516**
CHANGE IN CASH DURING THE YEAR		**(1,018,522)**	**(1,782,325)**
CASH, BEGINNING OF YEAR		2,846,740	4,629,065
CASH, END OF YEAR		**$ 1,828,218**	**$ 2,846,740**

Cash and cash equivalents are comprised of:		
Cash	$ 1,748,544	$ 1,043,740
GICs	79,674	1,803,000
	$ 1,828,218	**$ 2,846,740**

SUPPLEMENTAL CASH FLOW INFORMATION (Note 13)

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

Filament Health Corp.
Consolidated Statements of Changes in Equity
(Unaudited – Expressed in Canadian Dollars)

	Number of Shares	Amount	Share Subscription Receivable	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2021	**164,756,869**	$ **23,508,586**	$ -	$ **2,405,952**	$ **(9,361,980)**	$ -	$ **16,552,558**
Private placement	9,616,000	961,600	-	288,480	-	-	1,250,080
Convertible debenture	-	-	-	585,712	-	-	585,712
Shares issued for debt settlement	99,844	18,971	-	-	-	-	18,971
Shares issued for services	206,100	57,090	-	-	-	-	57,090
Exercise of stock options	270,000	126,016	-	(26,016)	-	-	100,000
Share-based compensation	-	-	-	1,095,376	-	-	1,095,376
Net and comprehensive loss	-	-	-	-	(16,466,465)	-	(16,466,465)
Balance, December 31, 2022	**174,948,813**	**$ 24,672,263**	**$ -**	**$ 4,349,504**	**$ (25,828,445)**	**$ -**	**$ 3,193,322**
Private placement	33,777,771	3,220,000	(50,000)	180,000	-	-	3,350,000
Conversion of RSUs to common shares	2,482,943	209,407	-	(209,407)	-	-	-
Vesting of RSUs issued for debt settlement	-	-	-	209,407	-	-	209,407
Share-based compensation	-	-	-	1,120,887	-	-	1,120,887
Net and comprehensive loss	-	-	-	-	(5,322,032)	(60,015)	(5,382,047)
Balance, December 31, 2023	**211,209,527**	**$ 28,101,670**	**$ (50,000)**	**$ 5,650,391**	**$ (31,150,477)**	**$ (60,015)**	**$ 2,491,569**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Filament Health Corp. ("Filament" or the "Company") was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on June 8, 2020. The Company is a public company with its registered and records office at the address of 210 – 4475 Wayburne Drive, Burnaby, British Columbia, V5G 4X4. The Company's common shares are listed for trading on the NEO Exchange ("NEO") under the symbol "NEO:FH", the OTCQB Exchange under the symbol "OTCQB:FLHLF" and the Frankfurt Exchange under the symbol "FSE:7QS".

Filament Health is a clinical-stage natural psychedelic drug development company.

Going Concern

These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business and continue operating as a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

Although these consolidated financial statements have been prepared on a going concern basis, there are material uncertainties regarding the Company's ability to execute its business plan and continue in the normal course of operations which may be dependent upon its ability to obtain additional financing. There are no assurances that the Company will be successful. As at December 31, 2023, the Company has not yet achieved profitable operations, has negative cash flows from operations, and has an accumulated deficit of $31,150,477 (December 31, 2022, $25,828,445). These material uncertainties cast significant doubt on the Company's ability to continue as a going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. The Company will need to raise funds through leveraging existing debt facilities or to engage in equity financing to fund operations for the following fiscal year. These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. BASIS OF PRESENTATION

a. Statement of compliance

The Company's consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and Interpretations Issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Audit Committee and approved and authorized for issue by the Board of Directors on April 2, 2024.

b. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value through profit and loss which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

c. Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary at the end of the reporting period:

	Incorporated	Nature	Ownership December 31, 2023	Ownership December 31, 2022
Psilo Scientific Ltd.	British Columbia	Research and development	100%	100%

The results of the wholly owned subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated on consolidation.

3. MATERIAL ACCOUNTING STANDARDS AND POLICIES

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

a. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with financial institutions, and other short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. As of December 31, 2023, and December 31, 2022, the Company held GICs as cash equivalents.

b. Translation of foreign transactions and balances into the functional currency

Foreign currency transactions are translated into the functional currency of the Company at rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, all monetary assets and liabilities that are denominated in foreign currencies are translated to the functional currency of the Company at the rates prevailing at the date of the statement of financial position. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss.

c. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

d. Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, common share warrants, restricted share unit awards ("RSUs"), and options are classified as equity instruments. Incremental costs directly attributable to issuing new shares or options are recognized as a deduction from equity, net of tax, from the proceeds.

Value of equity units issued in private placements
The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, are allocated to the attached warrants. Any fair value attributed to the warrants is recorded to contributed surplus.

e. Share-based payments

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

(Unaudited – Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING STANDARDS AND POLICIES (continued)

e. Share-based payments (continued)

The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in share capital and the related share-based payment in contributed surplus is transferred to share capital. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

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

The Company grants RSUs to acquire common shares of the Company to directors, officers, employees, and consultants. The fair value of RSUs is measured at grant date, using the closing quoted bid price on the issuance date. The fair value is recognized over the vesting period using the graded method.

f. Earnings (loss) per share

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

As at December 31, 2023, 15,087,999 (December 31, 2022 – 16,771,331) options, 51,727,112 (December 31, 2022 – 26,199,333) warrants, and nil (December 31, 2022 – 991,360) financing warrants were not included in the calculation of dilutive earnings per share because their inclusion was anti-dilutive.

g. Property, plant, and equipment

Property, plant, and equipment ("PPE") are carried at cost, less accumulated depreciation, and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The major categories of PPE are depreciated on a straight-line basis using the estimated lives as follows:

Computer equipment	3 years
Lab equipment	10 years
Furniture & fixtures	5 years
Right of use assets	Over lease term

The carrying amount of an item of PPE is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of PPE is included in profit or loss when the item is derecognized.

3. MATERIAL ACCOUNTING STANDARDS AND POLICIES (continued)

h. Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment either when facts and circumstances suggest that the carrying amounts may not be recoverable or annually. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are independent cash flows. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (being the present value of the expected future cash flows of the CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Non-financial assets that have been impaired in prior periods are tested for possible reversal of impairment either when events or changes in circumstances indicate that the impairment has reversed or annually. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of impairment loss is recognized in profit or loss.

i. Intangible assets

Separately acquired intangible assets are recognized initially at cost. Following initial recognition, intangible assets with finite useful lives are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss.

As at December 31, 2023, the Company has a Health Canada issued Dealer's License, which enables the Company to possess, produce, and transport psilocybin and other compounds found in natural, botanical fungus. The Company received an amendment to the Dealer's License that further allows the research and supply of all controlled natural psychedelic substances, including N,N-dimethyltryptamine (DMT), mescaline, and others. The Company has recognized licenses as intangible assets with an indefinite useful life once the conditions to acquire the license are met and approved by Health Canada, the annual renewal of the license is a formality assuming the Company does not violate conditions of the license. Impairment is assessed on an annual basis to assess whether any factors exist that suggest the recoverable amount is less than the carrying amount of the indefinite life intangible.

j. Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of net assets acquired. Goodwill is not subject to amortization and an impairment test is performed annually or more frequently as events occur that could indicate impairment. Goodwill is reported at cost less any impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows ("CGUs"). To test for impairment, goodwill is allocated to each of the Company's CGUs, groups of CGUs, or an operating segment expected to benefit from the acquisition. Goodwill is tested by combining the carrying amounts of equipment, intangible assets, and goodwill and comparing this to the recoverable amount. Fair value less costs of disposal is the price to be received in an orderly transaction between market participants. Value in use is assessed using the present value of the expected future cash flows. Any excess of the carrying amount over the recoverable amount is recorded as impairment. Impairment charges, which are not tax affected, are recognized in the statement of loss and comprehensive loss and are not reversed.

3. MATERIAL ACCOUNTING STANDARDS AND POLICIES (continued)

k. Research and development

Research costs are expensed as incurred. 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 to use or sell the asset. To date, no development costs have been capitalized. Included in research and development costs recognized in profit and loss are costs associated with use of lab supplies, research fees, and consulting fees related to development of intellectual property.

l. Leases

At inception of a contract, the Company assesses whether the contract is or contains a lease. At the commencement of the lease, the Company recognizes a right-of-use asset and a corresponding lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

The right-of-use asset at inception includes the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is recorded in the statement of loss and comprehensive loss. Depreciation is recorded on a straight-line basis over the shorter of the term of the lease or the estimated useful life of the underlying asset, commencing when the asset becomes available for use.

Right-of-use assets are reviewed for indicators of impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value-in-use. Where an impairment loss is recognized for a right-of-use asset, the asset is reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

The lease liability is initially measured at the present value of the remaining lease payments that have not been paid at the commencement date, discounted by using the Company’s incremental borrowing rate unless the rate implicit in the lease is readily determinable.

Lease payments over the estimated lease term included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and,
- Payments of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease.

On an ongoing basis, the lease liability carrying amount is increased by the interest on the lease liability (using the effective interest rate method) and reduced by the lease payments made. The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when the lease term changes, the lease payments change, the lease contact changes, or another amendment is made. The Company has applied the practical expedient where a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

3. MATERIAL ACCOUNTING STANDARDS AND POLICIES (continued)

m. Financial Instruments

A Financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial instruments are recognized in the consolidated statements of financial position when the Company becomes a party to the contractual obligations of the instrument.

Financial assets

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

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

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

Financial assets that meet the following conditions are measured at fair value through other comprehensive income ("FVTOCI"):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities

Financial liabilities are designated as either: (i) FVTPL; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities are classified under other financial liabilities and carried on the consolidated statement of financial position at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are generally recognized in profit or loss. The Company does not have any derivative financial assets and liabilities.

3. MATERIAL ACCOUNTING STANDARDS AND POLICIES (continued)

m. Financial Instruments (continued)

All financial instruments are initially recognized at fair value on the statement of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified as FVTPL are measured at fair value with changes in those fair values recognized in net income (loss) for the period. Financial assets classified at amortized cost and financial liabilities are measured at amortized cost using the effective interest method.

The following table sets out the classifications of the Company's financial assets and liabilities:

Financial Assets / Liabilities	Classification and Measurement
Cash and Cash Equivalents	Fair Value Through Profit or Loss
Receivables	Amortized Cost
Deposits	Amortized Cost
Accounts Payable and Accrued Liabilities	Amortized Cost
Convertible Debenture	Amortized Cost

Fair value hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and
Level 3 - Valuation techniques using inputs that are not based on observable market data.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

n. Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

3. MATERIAL ACCOUNTING STANDARDS AND POLICIES (continued)

o. Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the consolidated statement of financial position when the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

p. Investment in associates

Equity accounted investments are those entities in which the Company has significant influence but does not have control over the financial and operating policies of the investees. Significant influence is the power to participate in the financial and operating policy decisions of the investee but where the Company does not exercise control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Company determined that it has significant influence over its associate based on its representation on the board of directors and participation in decisions over relevant activities.

Investments in associates and joint ventures are accounted for by the equity method, whereby the original cost of the investment is adjusted for the Company's share of earnings or losses less dividends since significant influence was acquired. When net accumulated losses from an equity accounted investment exceed its carrying amount, the investment balance is reduced to $NIL and additional losses are not provided for unless the Company is committed to provide other financial support to the investee. The Company resumes accounting for its portion of income (loss) of the investment when the entity subsequently reports net income and the Company's share of that net income exceeds the share of net losses not recognized during the period the equity method was suspended.

Profits or losses resulting from transactions between the Company and its associates are eliminated to the extent of the interest in the associate. The Company determines at each reporting date whether there is objective evidence that the investments in associates are impaired. The financial statements of associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies of associates in line with those of the Company.

On December 31, 2023, the Company accounts for the following entities using the equity method as the Company does not have control over these entities:

	Incorporated	**Nature**	**Ownership December 31, 2023**	**Ownership December 31, 2022**
Magdalena Biosciences Inc.	British Columbia	Research and development	40%	-

3. MATERIAL ACCOUNTING STANDARDS AND POLICIES (continued)

q. Revenue recognition

The Company recognizes revenue from three revenue sources: licensing revenue, analytical revenue, and services revenue.

To determine whether to recognize revenue, the Company follows a 5-step process:

a. Identifying the contract with a customer.
b. Identifying the performance obligations.
c. Determining the transaction price.
d. Allocating the transaction price to the performance obligations.
e. Recognizing revenue when/as performance obligation(s) are satisfied.

<u>Licensing revenue</u>

Licensing revenue is comprised of upfront fees, pre- and post-commercialization milestone payments, and royalties on future product sales. The Company enters into licensing arrangements whereby the Company provides services related to regulatory compliance and approval of clinical trial applications, licensing, supply and distribution of its drug candidates, and patented technologies. The terms of the agreement may include consideration to be payable for upfront or licensing fees, milestone payments, and royalties on future product sales derived from the operations of licensing partners.

Agreements are reviewed and assessed to identify all performance obligations related to the licensing arrangement, whereby the transaction price is determined and allocated to the performance obligation. Upfront fees and pre-commercialization milestones are recognized to coincide with the timing of when control is transferred and there are no remaining uncertainties related to recognition of variable consideration, which is typically at a point in time. Post-commercialization milestones, such as marketing authorizations are recognized as revenue when the underlying condition is achieved or highly probably of being achieved and is unconditional on any further performance by the licensing partner.

The Company grants licenses whereby they are considered to be right-to-use licenses. Accordingly, the Company recognizes licensing revenue at a point in time, upon granting the license to the licensing partner or when the licensing partner can realize economic benefits from use of the license.

Pre-commercialization milestone payments are a type of variable consideration. The estimated amounts are included in the transaction price to the extent that it is highly probably that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Due to the significant uncertainty associated with achievement of certain milestones, pre-commercialization milestone payments are typically not recognized until the uncertainty related to the condition has been resolved.

Posts-commercialization milestone payments are a type of variable consideration. The estimated amounts are included in the transaction price to the extent that a licensing partner will be able to achieve commercialization of its drug candidate, receive approval for marketing authorization in applicable markets, and engage in subsequent sales. The Company accounts for post-commercialization milestone payments in accordance with the royalty recognition constraint and only recognizes revenue for the post-commercialization milestone payments once the licensing partners achieve the contractual milestones.

Royalty revenue is recognized in the period in which the Company earns the royalty and is based on net sales reported by the Company's licensing partners and are typically calculated as a percentage of product sales realized by the Company's licensing partners. Royalty revenue received in exchange for licenses of intellectual property are recognized at the later of when i) the subsequent sale thresholds are met; and ii) the performance obligation to which some or all of the sales-based royalties have been satisfied, or partially satisfied.

3. MATERIAL ACCOUNTING STANDARDS AND POLICIES (continued)

r. Revenue recognition

Analytical revenue

The Company also provides analytical and encapsulation services to its licensing partners to package drugs into capsules using the Company's Dealer's License. The Company recognizes revenue as the performance obligations are satisfied at a point in time once the drugs are encapsulated and all significant contractual obligations have been satisfied. These criteria are generally met at the time the encapsulation services have been processed where the capsules are produced and packaged to be made available for the licensing partner to arrange for shipping to their end customer.

Cost of sales includes the expenses incurred to provide capsules and to encapsulate drugs, which are nominal and are included in operating expenses.

Service revenue

Service revenue typically includes a performance obligation to provide consulting services to its customers, which encompasses services related to natural product chemistry and drug development (extraction, fractionation, bioassay, and chemistry, manufacturing and controls), botanical drug manufacturing, intellectual property generation, and novel manufacturing and standardizing techniques for pharmaceutical grade drug candidates. The Company has determined these consulting services represent a stand-ready series of distinct daily services that are substantially the same, with the same pattern of service performed for the customer. As a result, the Company has determined that revenue arrangements involving the provision of consulting services represent an individual performance obligation.

s. New accounting standards not yet effective

Certain new standards, interpretations, and amendments to existing standards have been issued by the IASB or IFRC that are mandatory for accounting years beginning after January 1, 2024, or later years. New accounting pronouncements that are not applicable or are not consequential to the Company have been excluded in the preparation of these consolidated financial statements.

A number of new standards, and amendments to standards and interpretations, are not effective for the year ended December 31, 2023, and have not been early adopted in preparing these financial statements. These new and amended standards are not expected to have a material impact on the Company's financial statements. The following accounting standards and amendments are effective for future periods:

i. Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

   These amendments continue the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures. These amendments are effective for reporting periods beginning on or after January 1, 2024.

3. MATERIAL ACCOUNTING STANDARDS AND POLICIES (continued)

s. New accounting standards not yet effective (continued)

ii. Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments to IAS 12 clarify how companies account for deferred taxes on transactions such as leases and decommission obligations, with a focus on reducing diversity in practice. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of a lease and a decommission provision.

The adoption of these new and amended accounting standards did not have a material impact on the Company's financial statements. The adoption of these future accounting standards is not expected to have a material impact on the Company's future consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, and other financial figures. Estimates are based on management's experience, professional judgement, and other factors. Actual results may differ from those estimates which could result in a material adjustment to the carrying amounts of assets and liabilities.

Critical accounting estimates and judgements

Revenue recognition

The Company enters into licensing agreements for the provision of the Company's proprietary drug candidate and the related intellectual property. Each agreement is distinct and could contain specific clauses that may lead to different accounting conclusions. The terms of the agreements may include upfronts fees, pre- and post-commercialization milestone payments, and royalties on any future product sales. Milestone payments are considered variable consideration and requires estimation to determine the amount to be included in the transaction price and judgement is required to determine when the uncertainty related to the milestone payments has been resolved.

Management analyzes each agreement to identify all performance obligations, determine and allocate the transaction price and recognize revenue on the achievement of revenue recognition criteria. The non-standard nature of these agreements gives rise to the risk that revenues could be misstated due to the complexity of the licensing contracts.

Estimated useful lives and depreciation of property, plant, and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives, which are determined through the exercise of professional judgment by management. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical accounting estimates and judgments *(continued)*

Impairment of license and goodwill

The determination of whether facts and circumstances suggest that the carrying amount of intangible assets and goodwill may exceed their recoverable amount is an area of significant estimate. Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment, estimates, and interpretations. Determining the recoverable amount of the individual asset or the cash generating unit is subject to estimates and judgments. These estimates and judgments are inherently subjective given the Company's stage of operations with no revenue producing history. See Note 8 for additional details.

Share-based compensation

The fair value of common share purchase options and warrants are determined using the Black-Scholes option pricing model. The model includes six key inputs that involve considerable judgment and could be affected by significant factors that are out of the Company's control.

Valuation of investment in joint venture

The valuation of the investment in an associate or joint venture is measured based on the costs incurred or amount invested into the associate or joint venture. In formation of the joint venture, the Company contributed access and rights to its operating license for use by the joint venture and was valued in accordance with IFRS 2, *Share-based Payments* that required judgement in determining the fair value of licensing rights using the fair value of common shares of Magdalena.

Going concern

In the preparation of these consolidated financial statements, management makes judgments of whether the Company can continue as a going concern and whether the going concern basis of preparation is appropriate, as disclosed in Note 1.

Impairment of property, plant, and equipment

The evaluation if an impairment test in accordance with IAS 36 needs to be performed on the Company's long-term assets requires judgment in determining whether it is likely that future economic benefits will be achieved, which may be based on assumptions about future events or circumstances. After an expenditure is capitalized, if information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written down in the statement of loss and comprehensive loss in the period where this information becomes available.

(Unaudited – Expressed in Canadian Dollars)

5. JOINT VENTURE

On January 9, 2023, the Company entered a transaction to form a joint venture to create Magdalena Biosciences Inc. (“Magdalena”), a development company specializing in novel, natural prescription medicines derived from plants for mental health indications, with Jaguar Health Inc. (“Jaguar”) and One Small Planet Capital LLC (“One Small Planet”). Magdalena will leverage the know-how, trade secrets, expertise of both Jaguar and Filament to develop a potential plant-based alternative drug for adult ADHD that is safe and efficacious. Jaguar has a library of 2,300 highly characterized plants and 3,500 plant extracts from firsthand ethnobotanical investigations whereby an exclusive license is provided to Magdalena. Filament has entered into a services agreement to provide Magdalena with its expertise, technologies, and will utilized its licensed facility to contribute towards the development of a new botanical drug to address indications such as ADHD. Initial funding of US $1,000,000 will be provided by One Small Planet for the purchase of 2,000,000 common shares of Magdalena at a price of $0.50 per share.

The joint venture was formed with Filament owning 40%, Jaguar owning 40%, and One Small Planet owning 20% of the new entity. No cash consideration was paid upon incorporation of the entity by the Company.

The Company recognized its investment in Magdalena in accordance with IAS 28, *Investments in Associates and Joint Ventures*, based on its share of the net identifiable assets of Magdalena of $1,578,961 in exchange for Filament’s stand-ready series of services from one year from the effective date of January 9, 2023, to January 9, 2024 (“Initial Services Period”). Upon initial recognition, these amounts have been recognized as deferred revenue on the statements of financial position. As at December 31, 2023, the Company has an investment balance of $1,449,980 after incorporating the Company’s share of Magdalena losses of $68,966 in profit or loss and $60,015 in accumulated other comprehensive income (loss) related to the exchange difference on translating foreign operations.

The deferred revenue relates to Filament’s obligations under the services agreement to provide consulting services related to research and development, know-how, and clinical trial support on an as needed basis for the Initial Services Period. The revenue was recognized on a straight-line basis over the period of one year. As at December 31, 2023, the Company recognized services revenue of $1,540,027.

For the year ended December 31, 2023, the Company recognized its share of the profit and loss of Magdalena as follows:

		December 31, 2023
EXPENSES		
General and administrative	$	10,965
Foreign exchange on translating foreign operations		150,038
Professional and consulting fees		132,469
Research and development		28,981
Net (loss) for the period	$	(322,453)
Filament share of net loss	$	(128,981)
Net (loss) attributed to the Company	$	(68,966)
Exchange difference on translating foreign operations attributed to the Company	$	(60,015)

(Unaudited – Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of activities for the year ended December 31, 2023:

	Lab Equipment	Computer Equipment	Furniture & Fixtures	Total
Cost, December 31, 2021	**$ 607,428**	**$ 7,166**	**$ 538**	**$ 615,132**
Additions	23,628	-	8,528	32,156
Cost, December 31, 2022	**$ 631,056**	**$ 7,166**	**$ 9,066**	**$ 647,288**
Additions	50,316	**560**	6,776	57,652
Cost, December 31, 2023	**$ 681,372**	**$ 7,726**	**$ 15,842**	**$ 704,940**
Accumulated depreciation, December 31, 2021	**$ 56,702**	**$ 1,079**	**$ 188**	**$ 57,969**
Depreciation expense	61,634	2,306	641	64,581
Accumulated depreciation, December 31, 2022	**$ 118,336**	**$ 3,385**	**$ 829**	**$ 122,550**
Depreciation expense	65,679	2,412	4,643	72,734
Accumulated depreciation, December 31, 2023	**$ 184,015**	**$ 5,797**	**$ 5,472**	**$ 195,284**
Net book value, December 31, 2022	**$ 512,720**	**$ 3,781**	**$ 8,237**	**$ 524,738**
Net book value, December 31, 2023	**$ 497,357**	**$ 1,929**	**$ 10,370**	**$ 509,656**

7. RIGHT-OF-USE ASSETS AND LEASE OBLIGATION

On June 11, 2020, Psilo entered into a three-year lease agreement for a 3,416 square foot office and production facility beginning on August 1, 2020 (the "Original Lease"). On the commencement of the Original Lease, the Company paid a security deposit of $27,633 and prepaid $142,919 of rent that was capitalized to the right-of-use asset. On July 20, 2021, Psilo entered into a lease extension agreement to extend the lease for an additional three years, until July 31, 2026 (the "Lease Extension"). In accordance with the Lease Extension, the Company paid an additional security deposit of $18,910 for a total security deposit of $46,543. The right-of-use asset and lease obligation were revised as at August 1, 2021 to reflect this extension and to remeasure the right-of-use asset and lease obligation.

As at December 31, 2023, the right-of-use ("RoU") asset is calculated as follows:

Cost, December 31, 2021, 2022, and December 31, 2023	**$**	**737,746**
Accumulated depreciation, December 31, 2021		**114,121**
Depreciation expense		136,064
Accumulated depreciation, December 31, 2022	**$**	**250,185**
Depreciation expense		136,063
Accumulated depreciation, December 31, 2023	**$**	**386,248**
Net book value, December 31, 2022	**$**	**487,561**
Net book value, December 31, 2023	**$**	**351,498**

(Unaudited – Expressed in Canadian Dollars)

7. RIGHT-OF-USE ASSETS AND LEASE OBLIGATION (continued)

The lease obligation was measured at the present value of the remaining lease payments, which is comprised of both lease and non-lease components, with a three-year lease term and discounted using the Company's estimated incremental borrowing rate of 10% per annum. Upon execution of the Lease Extension on July 20, 2021, and effective August 1, 2021, the lease obligation was revised to reflect the increased lease term. As at December 31, 2023, the remaining lease term is approximately 3.34 years.

On June 11, 2020, the Company prepaid $142,919 of rent that was applied to the first year of the Original Lease and the Company began making lease payments on June 1, 2021. As at December 31, 2023, the lease obligation is calculated as follows:

Balance, December 31, 2021	**$**	**639,557**
Lease payments		(164,241)
Accretion expense on lease payments		59,229
Balance, December 31, 2022		**534,545**
Lease payments		(171,358)
Accretion expense on lease payments		48,113
Balance, December 31, 2023	**$**	**411,300**
Less: current portion	**$**	**(159,704)**
Long-term lease obligation	**$**	**251,596**

The following table represents a summary of the Company's undiscounted contractual cash flows and present value of the lease obligation:

Maturity analysis		**December 31, 2023**
2024	**$**	181,321
2025		181,321
2026		105,771
Undiscounted lease obligation		**468,413**
Less: future interest charges		(57,113)
Discounted lease obligation	**$**	**411,300**
Short-term lease obligation	**$**	**159,704**
Long-term lease obligation	**$**	**251,596**

8. LICENSES AND GOODWILL

Licenses

As at December 31, 2023, the Company has a Health Canada issued Dealer's License, which enables the Company to possess, produce, and transport psilocybin and other compounds found in natural, botanical fungus. During 2021 and subsequent to the acquisition of Psilo, the Company received an amendment to the Dealer's License that further allows the research and supply of all controlled natural psychedelic substances, including N,N-dimethyltryptamine (DMT), mescaline, and other substances. The license is recognized as an indefinite life intangible asset. The license was tested for impairment and the Company concluded that its value is not impaired as at December 31, 2023 and 2022. The recoverable amount of the license was estimated using fair value less costs of disposal which is calculated according to the reproduction cost model and is a level 3 measurement within the fair value hierarchy. The key assumptions used in the determination of the recoverable amounts were the estimated costs related to wages and salaries and licensed facilities required for research and development and the timeline required to complete an application for a Dealer's License. As at December 31, 2023, the Company has recognized $460,000 (December 31, 2022 - $460,000) in licenses.

8. LICENSES AND GOODWILL (continued)

Goodwill

As at December 31, 2023, the carrying value of goodwill is $Nil (December 31, 2022 - $Nil).

Impairment of Goodwill

As at December 31, 2022, the Company completed its annual impairment test using the following key assumptions of its discounted cash flow analysis:

- Management prepared a 10-year period projection, rather than a common 5-year period projection, due to the nature of the industry and the longer-term cycle and time required to commercialize the Company's portfolio of intellectual property, drug candidates, and products

- The present value of expected cash flows of each segment was determined by applying a suitable discount rate. The discount rate was derived based on the weighted average cost of capital for comparable entities in the psychedelic and pharmaceutical industry, based on market data. The discount rate reflects appropriate adjustments related to market risk and specific risk factors of the Company and has been determined to be 46.5%. A decrease in the discount rate of 5% would result in a decrease in impairment of $5,756,000.

- Terminal growth rate of 2.0% is determined due to the entrance of new products in the market and possible generic alternatives that may offset population growth. Management has considered a sensitivity analysis of a growth rate and a decrease of 1.0% would result in a decrease in impairment of $217,600.

- The growth rates of project cash flows reflect management's assessment of the expected market share and probability of success of each product line based on the current stage of approval for each of clinical trials, Filament partners, development status, and successful drug formulations.

- The number of clinical trials was determined based on government provided data of the number of clinical trials in progress as at the date of the impairment assessment, which was further filtered using management judgement to determine the number of relevant psilocybin clinical trials in progress, expected to start, and the estimated number of successful trials that will progress to the next phase.

- Clinical trial success rates were determined through observation of historical trial success rates and market data for the estimated probability of clinical trials that will successfully complete each phase and potentially achieve commercial production.

- Royalty rates used in the model were derived from market transactions in the psychedelics industry that have disclosed operating milestone revenues and royalty rates.

- The estimated market size for the psychedelic industry and the psilocybin market was based on the average of several sources, based on market data, that project the estimated market size by 2032.

- The Company's market share estimates were determined through observation of the Company's current proportions of psilocybin clinical trials compared to the total number clinical trials in progress and management's projection for future market share based on available market data.

The current year impairment test had a higher discount rate, a lower number of clinical trials expected to be completed in future periods and assessed that the completion of clinical trials would be based on a longer timeline compared to the initial cash flow projections assessed upon initial recognition. The impairment assessment resulted in the impairment of goodwill in the amount of $10,682,334.

9. LOAN RECEIVABLE

During the year ended December 31, 2021, the Company provided a loan in three payment instalments for an aggregate of $89,153 to Filament Foundation, which is a charitable foundation that pursues initiatives that progress the psychedelics ecosystem by raising awareness for psychedelic related medical breakthroughs, rallying government oversight and amendments, and supporting companies in the psychedelic industry. Filament Foundation is directed by a board of four directors, of which the Company's CEO is a member, and management has assessed that this entity is a related party. During the year ended December 31, 2022, the Company provided an additional loan for $38,701.

The loans are unsecured, non-interest bearing, and are due upon demand. As at December 31, 2023, the loan receivable balance is equal to $Nil (December 31, 2022 - $Nil) and the Company recognized a bad debt expense of $Nil (December 31, 2022 - $127,854). Due to uncertainty regarding Filament Foundations ability to generate funds and repay the loan, the Company recognized a loss allowance equal to the lifetime expected credit losses of $127,854.

10. CONVERTIBLE DEBENTURE

On July 13, 2022, the Company entered into a convertible debenture agreement 1,250 convertible debenture units ("CD Unit") at a price of $1,000 per CD Unit for proceeds of $1,250,000 that matures on July 13, 2024. The CD Unit is convertible into common shares of the Company at a price of $0.15 per common share. Each CD Unit can be converted into 6,667 common shares and 6,667 warrants, with each warrant exercisable at a price of $0.30 per share for a period of three years from the date of issuance. The conversion feature can be exercised by the loan holder on or before July 13, 2024. If the Company is in default of payments pursuant to the agreement, any outstanding principal will accrue interest at a rate of 10% per annum, compounding monthly.

As a result of the transaction, the Company issued 8,333,333 warrants with a fair value of $395,000, with an exercise price of $0.30 that expire on July 13, 2025. The warrants were valued using the Black-Scholes Option Pricing model using the following assumptions: Risk free rate of 3.25%; Volatility of 100%; Stock Price of $0.11; Exercise price of $0.30; Dividend yield of NIL% and expected life of 3 years. The Company recognized these warrants as transaction costs and allocated on a pro-rata basis to the debt component and equity component.

The convertible debenture was determined to meet the definition of a compound financial instrument and the convertible debenture's embedded conversion feature was determined to meet the definition of a derivative. The Company has assigned a fair value to the debt and any residual amounts are recorded as equity. The fair value of the conversion feature was determined to be $381,944 and was recorded in contributed surplus on the statement of financial position. Accordingly, the fair value of the debt component was recognized at $868,056. The total transaction cost was allocated to the debt component and the equity component of the convertible debenture on a pro-rata basis of $274,306 and $120,694, accordingly.

(Unaudited – Expressed in Canadian Dollars)

10. CONVERTIBLE DEBENTURE (continued)

The Company recognized a deferred income tax ("DIT") recovery on the equity component of the convertible debenture of $70,538 in the statement of loss and comprehensive loss. The deferred tax liability resulted from the bifurcation of the equity component from the liability component. As the Company had sufficient deferred tax assets to offset the deferred tax liability, the deferred tax liability was reduced to $Nil and recognized as a recovery.

The borrowing amount of the convertible loan represents the debt element of the loan, without the conversion feature, recorded at its amortized cost as at December 31, 2022 using an effective interest rate of 45.1%.

The following table represents a summary of the Company's debt and equity components of its convertible debenture:

		December 31, 2023
Total proceeds received for convertible debenture	**$**	**1,250,000**
Debt component		868,056
Equity component		381,944
Equity Component		
Balance, December 31, 2021	**$**	-
Additions		381,944
Less: transaction costs		(120,694)
Less: DIT recovery		(70,538)
Balance, December 31, 2022 and December 31, 2023	**$**	**190,712**
Debt Component		
Balance, December 31, 2021	**$**	-
Additions		868,056
Less: transaction costs		(274,306)
Add: accretion expense		125,440
Balance, December 31, 2022		**719,190**
Add: accretion expense		326,454
Balance, December 31, 2023	**$**	**1,045,644**
Convertible Debenture, Net book value, December 31, 2022	**$**	**719,190**
Convertible Debenture, Net book value, December 31, 2023	**$**	**1,045,644**

(Unaudited – Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and Chief Executive Officer, Chief Operating Officer, Chief Research Officer, and Chief Finance Officer. These transactions are incurred in the normal course of operations and are measured at the exchange amount that indicates fair value, which is the amount of consideration established and agreed to by the related parties. Remuneration attributed to key management personnel can be summarized as follows:

	Year ended December 31, 2023	2022
Management		
Wages and benefits		
Benjamin Lightburn, CEO	$ 180,300	$ 175,000
Warren Duncan, CFO	154,488	150,000
Lisa Ranken, COO	130,000	106,500
Ryan Moss, VP Research and Development	113,291	110,000
Share-based compensation		
Benjamin Lightburn, CEO	44,109	-
Warren Duncan, CFO	95,947	183,891
Lisa Ranken, COO	67,526	41,129
Ryan Moss, VP Research and Development	135,790	82,258
Total management	**$ 921,451**	**$ 848,778**
Board of Directors		
Share based compensation		
Greg Mills, Chairman, Former Director	18,807	86,635
Maureen O'Connell, AC Chair, Director	141,286	144,389
Chris Wagner, Director	141,286	144,389
Jonathan Conlin, Director	127,159	129,950
	$ 1,349,989	**$ 1,354,141**

During the year ended December 31, 2023, the Company incurred $1,260,783 (2022 - $279,155) in legal and professional fees to Fasken Martineau DuMoulin LLP, a law firm, where one of the Company's directors is a partner and acts as counsel to Filament.

Accounts payable and accrued liabilities at December 31, 2023, includes $651 (December 31, 2022 - $41,322) owed to related parties.

During the year ended December 31, 2023 and 2022, the Company issued a loan to Filament Foundation, which has been determined to be a related party as the Company's CEO is a member of the Board. See Note 10 for additional details.

12. CAPITAL STOCK AND RESERVES

a) Authorized share capital

The Company has unlimited authorized common shares with no par value.

b) Issued share capital

For the year ended December 31, 2023:

On December 12, 2023, the Company issued 2,482,943 common shares related to the vesting and conversion of 2,482,943 RSUs. The fair value of RSUs of $209,407 was transferred from contributed surplus to share capital.

On December 5, 2023, the Company completed a private placement for the offering of 5,999,998 units at a price of $0.15 per unit for gross proceeds of $900,000. Each unit is comprised of one common share and one common share purchase warrant, exercisable at a price of $0.20 with an expiry date of December 5, 2026. A total of 5,999,998 warrants were issued and the fair value of the warrants issued in a unit were valued using the residual value method and have a value of $180,000. As at December 31, 2023, the Company has recognized $50,000 of subscriptions receivable related to the private placement that was collected subsequent to year-end.

On July 24, 2023, the Company completed a private placement for the offering of 27,777,773 units at a price of $0.09 per unit for gross proceeds of $2,500,000. Each unit is comprised of one common share and one common share purchase warrant exercisable at a price of $0.117 with an expiry date of July 24, 2026. A total of 27,777,781 warrants were issued and the fair value of the warrants issued in a unit were valued using the residual value method and have a value of $Nil.

For the year ended December 31, 2022:

On August 23, 2022, the company issued a total of 206,100 common shares with a fair value of $57,090 pursuant to the terms of an agreement with a service provider.

On July 13, 2022, the Company completed a private placement for the offering of 9,616,000 units at a price of $0.13 per unit for gross proceeds of $1,250,080. Each unit is comprised of one common share and one common share purchase warrant exercisable at a price of $0.30 for a period of 36 months from the date of issuance. The fair value of warrants issued in a unit were valued using the residual value method and have a value of $0.03 per warrant for a total fair value of $288,480, which was deducted from share capital and recognized in contributed surplus.

On January 28, 2022, the Company issued a total of 99,844 common shares with a fair value of $18,971 to a service provider in exchange for the reduction of an accumulative $39,939 in debts owing. The Company recognized a gain on the settlement of debt in the amount of $20,968, which is recorded in the statement of loss and comprehensive loss.

During the year ended December 31, 2022, pursuant to the exercise of stock options, the Company issued 270,000 common shares for proceeds of $100,000. The fair value of stock options of $26,016 was transferred from contributed surplus to share capital on the stock options exercised.

(Unaudited – Expressed in Canadian Dollars)

12. CAPITAL STOCK AND RESERVES (continued)

c) Employee Stock Option Plan

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees, and consultants to acquire common shares of the Company. The maximum number of common shares issuable under the Plan cannot exceed 15% of the issued and outstanding common shares of the Company as at the date of grant. Vesting terms of stock options are determined by the Board. Stock option transactions and the number of stock options outstanding are summarized as follows:

	December 31, 2023		**December 31, 2022**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning	16,771,331	$ 0.30	17,911,638	$ 0.29
Issued	12,708,332	$ 0.10	5,149,999	$ 0.32
Exercised	-	$ -	(270,000)	$ (0.37)
Cancelled	(10,058,332)	$ (0.33)	(2,186,974)	$ (0.30)
Expired	(4,333,332)	$ (0.30)	(3,833,332)	$ (0.30)
Outstanding, ending	15,087,999	$ 0.11	16,771,331	$ 0.30

On May 19, 2023, the Company executed termination agreements whereby 3,100,000 stock options with an exercise price between $0.30 and $0.40 were cancelled. On June 30, 2023, the Company executed termination agreements whereby 6,908,332 stock options with an exercise price between $0.30 and $0.40 were cancelled. The fair value of the unvested portion of the stock options cancelled was accelerated and recognized in contributed surplus. On July 5, 2023, the Company cancelled 50,000 stock options with an exercise price of $0.10 pursuant to the termination of a consultant.

The following table summarizes the stock options outstanding and exercisable as at December 31, 2023:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding	Exercisable
January 31, 2024	0.08	$ 0.30	500,000	500,000
December 31, 2024	1.00	$ 0.30	166,667	166,667
December 22, 2030	6.98	$ 0.05	1,433,000	1,074,750
March 2, 2031	7.17	$ 0.30	330,000	330,000
March 31, 2033	9.25	$ 0.10	10,158,332	3,020,881
March 31, 2033	9.25	$ 0.16	500,000	-
June 30, 2033	9.50	$ 0.10	2,000,000	-
	8.63	$ 0.11	15,087,999	5,092,298

For the year ended December 31, 2023, the Company incurred $1,120,887 (December 31, 2022 - $415,338) in share-based compensation expenses related to the issuance of stock options and RSUs and accelerated vesting of cancelled stock options and RSUs. Of the total share-based compensation issued, $343,372 (December 31, 2022 - $307,278) was issued to key management whose fees are included in wages and benefits, $428,538 (December 31, 2022 - $505,363) was issued to the Board of Directors whose fees are included in professional and consulting fees, and $348,977 (December 31, 2022 - $282,735) was issued to consultants of the company whose fees are included in professional and consulting fees.

(Unaudited – Expressed in Canadian Dollars)

12. CAPITAL STOCK AND RESERVES (continued)

c) Employee Stock Option Plan (continued)

The weighted average share price on the date stock options were exercised was $Nil (2022 - $0.15).

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. The fair value of stock options issued was calculated using the following weighted average assumptions:

	December 31, 2023	December 31, 2022
Risk-free interest rate	3.17%	2.88%
Expected option life in years	10 years	1 to 5 years
Expected share price volatility*	108%	100%
Expected forfeiture rate	Nil	Nil
Expected dividend yield	Nil	Nil

*The share price volatility was determined based on management's professional judgement and comparison to comparable entities' historical volatility in share price.

d) Warrants

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

	December 31, 2023		December 31, 2022	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning	26,199,333	$ 0.38	8,250,000	$ 0.55
Issued	33,777,779	$ 0.13	17,949,333	$ 0.30
Cancelled	(2,000,000)	$ (0.40)	-	$ -
Expired	(6,250,000)	$ (0.60)	-	$ -
Outstanding, ending	51,727,112	$ 0.19	26,199,333	$ 0.38

On June 30, 2023, 2,000,000 warrants with an exercise price of $0.40 were cancelled pursuant to the termination of a consultant.

The following table summarizes the warrants outstanding and exercisable as at December 31, 2023:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding	Exercisable
July 30, 2025	1.58	$ 0.30	17,949,333	17,949,333
July 24, 2026	2.56	$ 0.117	27,777,781	27,777,781
December 5, 2026	2.93	$ 0.20	5,999,998	5,999,998
	2.27	$ 0.19	51,727,112	51,727,112

The fair value of the 17,949,333 warrants issued on July 30, 2022 were valued using the residual value method for warrants issued in a unit and were determined to have a fair value of $0.03 per warrant for a total value of $288,480. The fair value of warrants was deducted from share capital and recorded in contributed surplus.

(Unaudited – Expressed in Canadian Dollars)

12. CAPITAL STOCK AND RESERVES (continued)

d) Warrants (continued)

The fair value of the 5,999,998 warrants issued on December 5, 2023 were valued using the residual value method for warrants issued in a unit and were determined to have a fair value of $0.03 per warrant for a total value of $180,000. The fair value of warrants was deducted from share capital and recorded in contributed surplus.

The fair value of warrants issued individually were calculated using the following weighted average assumptions:

	December 31, 2023	December 31, 2022
Risk-free interest rate	-	3.25%
Expected option life in years	-	3 years
Expected share price volatility*	-	100%
Expected forfeiture rate	-	Nil
Expected dividend yield	-	Nil

*The share price volatility was determined based on management's professional judgement and comparison to comparable entities' historical volatility in share price.

e) Financing Warrants

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

	December 31, 2023		December 31, 2021	
	Number of Financing Warrants	Weighted Average Exercise Price	Number of Financing Warrants	Weighted Average Exercise Price
Outstanding, beginning	991,360	$ 0.33	991,360	$ 0.33
Expired	(991,360)	$ (0.33)	-	$ -
Outstanding, ending	-	$ -	991,360	$ 0.33

f) Restricted Stock Units

Restricted stock units ("RSUs") transactions and the number of RSUs outstanding are summarized as follows:

	December 31, 2023	December 31, 2022
Balance, beginning	2,640,500	-
Issued	3,869,343	2,640,500
Cancelled	(95,000)	-
Converted to common shares	(2,482,943)	-
Balance, ending	**3,931,900**	**2,640,500**

12. CAPITAL STOCK AND RESERVES (continued)

f) Restricted Stock Units (continued)

On January 27, 2022, the Company issued 125,400 RSUs, under which the holder has the right to receive an aggregate of 125,400 shares of the Company. These RSUs were fully vested at the time of issuance. The fair value of the RSUs is equal to $18,810, which has been fully recognized.

On January 27, 2022, the Company issued a total of 100,600 RSUs to consultants, under which the holders have the right to receive an aggregate of 100,600 shares of the Company. These RSUs vested on June 30, 2022. The fair value of RSUs is equal to $7,649, which has been fully recognized.

On August 23, 2022, the Company issued a total of 950,000 RSUs to consultants, under which the holders have the right to receive an aggregate of 950,000 shares of the Company. These RSUs vest 25% on September 1, 2023, and 6.25% every three months thereafter. The fair value of RSUs is equal to $15,325 and the Company has recognized $10,482 based on the vesting of the RSUs since the grant date.

On December 31, 2022, the Company issued 1,393,300 RSUs, under which the holder has the right to receive an aggregate of 1,393,300 shares of the Company. These restricted share units vest on October 12, 2023. The fair value of RSUs is equal to $104,703, which has been fully recognized. On December 12, 2023, the 1,393,300 RSUs were converted to common shares and issued.

On December 31, 2022, the Company issued 71,200 RSUs to a consultant, under which the holder has the right to receive an aggregate of 71,200 shares of the Company. These RSUs vested on June 30, 2023. The fair value of RSUs is equal to $2,883, which has been fully recognized.

On May 19, 2023, the Company issued 910,000 RSUs, under which the holder has the right to receive an aggregate of 910,000 shares of the company. These RSUs were fully vested at the time of issuance. The fair value of RSUs is equal to $77,350, which has been fully recognized.

On May 19, 2023, the Company issued 1,010,000 RSUs, under which the holder has the right to receive an aggregate of 1,010,000 shares of the company. These RSUs vest 25% on December 31, 2024, and 6.25% every three months thereafter. The fair value of RSUs is equal to $40,633 and the Company has recognized $10,169 based on the vesting of the RSUs since the grant date.

On May 19, 2023, the Company issued 1,089,643 RSUs, under which the holder has the right to receive an aggregate of 1,089,643 shares of the company. These RSUs vest on October 31, 2023. The fair value of RSUs is equal to $104,703, which has been fully recognized. On December 12, 2023, the 1,089,643 RSUs were converted to common shares and issued.

On May 19, 2023, the Company issued 144,700 RSUs, under which the holder has the right to receive an aggregate of 144,700 shares of the company. These RSUs vested on December 31, 2023. The fair value of RSUs is equal to $12,300, which has been fully recognized.

On May 19, 2023, the Company issued 300,000 RSUs, under which the holder has the right to receive an aggregate of 300,000 shares of the company. These RSUs vest 33.33% upon grant and 8.33% every three months thereafter. The fair value of RSUs is equal to $18,533 and the Company has recognized $13,902 based on the vesting of the RSUs since the grant date.

On June 30, 2023, the Company issued 415,000 RSUs, under which the holder has the right to receive an aggregate of 415,000 shares of the company. These RSUs vest 25% on December 31, 2023, and 6.25% every three months thereafter. The fair value of RSUs is equal to $17,349 and the Company has recognized $8,158 based on the vesting of the RSUs since the grant date.

(Unaudited – Expressed in Canadian Dollars)

13. SUPPLEMENTAL CASH FLOW INFORMATION

		December 31, 2023		December 31, 2022
Interest paid	$	48,113	$	59,229
Income tax paid	$	-	$	-
Non-cash financing and investing activities				
Equity portion of convertible debenture	$	-	$	381,944
Fair value of investment in Magdalena	$	1,578,961	$	-
Fair value of shares issued to settle debt and for services	$	209,407	$	76,061
Fair value of stock options exercised	$	-	$	26,016
Fair value of warrants issued for convertible debenture	$	-	$	395,000
Fair value of warrants issued in private placement units	$	180,000	$	288,480

14. REVENUE AND OPERATING SEGMENTS

As at December 31, 2023 and December 31, 2022, the Company is operating its business in one reportable segment: licensing. All non-current assets are located in Canada. During the year ended December 31, 2023, the Company had revenues of $2,130,974 (December 31, 2022 - $364,500) in Canada. The Company recognized revenue as follows:

		For the year ended December 31, 2023		For the year ended December 31, 2022
Licensing revenue	$	381,447	$	339,500
Analytical revenue	$	209,500	$	25,000
Services revenue from joint venture	$	1,540,027	$	-
	$	2,130,974	$	364,500

Major customers are defined as customers that each individually account for greater than 10% of the Company's revenues. For the year ended December 31, 2023 and year ended December 31, 2022, the following revenue was recorded from major customers comprising 99% (December 31, 2022 – 82%) of gross revenues:

		For the year ended December 31, 2023		For the year ended December 31, 2022
Customer A	$	-	$	225,000
Customer B	$	209,500	$	72,500
Customer C	$	369,361	$	-
Customer D	$	1,540,027	$	-

(Unaudited – Expressed in Canadian Dollars)

15. FINANCIAL INSTRUMENTS

Fair value

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and
Level 3 - Valuation techniques using inputs that are not based on observable market data.

The fair value of cash and cash equivalents are measured using Level 1 inputs. The Company determined that the carrying values of its other short-term financial assets and liabilities approximate the corresponding fair values because of the relatively short periods to maturity and limited credit risk.

The carrying value of the Company's convertible debenture is recognized at its approximate fair value and has been discounted using the Company's incremental borrowing rate upon recognition in reference to financial obligations that have similar terms and periods to maturity that are measured using Level 3 inputs.

There were no transfers between the levels of the fair value hierarchy during the year.

As of December 31, 2023	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 1,828,218	-	-	$ 1,828,218

As of December 31, 2022	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 2,846,740	-	-	$ 2,846,740

Financial risk factors

The Company's risk exposures and impact on the Company's financial statements are summarized below:

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and receivables. The carrying amount of these financial assets represent the maximum credit exposure. Filament holds cash at a major Canadian financial institution, and management believes the exposure to credit risk with respect to these institutions is not significant.

Expected credit loss ("ECL") analysis is performed at each reporting date using an objective approach to measure expected credit losses on its accounts receivable. The provision amounts are based on direct management interactions with the customer. The calculations reflect the probability-weighted outcome, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions, and forecast of future economic conditions. Accounts receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, but are not limited to, business failure, failure of a debtor to engage in a repayment plan, and a failure to make contractual payments. As at December 31, 2023, $25,000 (December 31, 2022 - $25,000) of trade receivables are past due; however, management expects to be able to collect these amounts outstanding.

(Unaudited – Expressed in Canadian Dollars)

15. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

As at December 31, 2023, receivables are comprised of $587,263 (December 31, 2022 - $55,757) in trade receivables and the remainder arise from taxes receivable. The Company's aging of receivables is below:

		December 31, 2023		December 31, 2022
0 – 30 days	$	283,675	$	26,250
91+ days		303,588		29,507
Total trade receivables	**$**	**587,263**	**$**	**55,757**

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The accounts payable are typically due in 30 days, which are settled using cash. As at December 31, 2023, the Company has a working capital of $1,146,207.

At present, the Company's operations do not generate positive cash flow. The Company's primary source of funding has been the issuance of equity securities. Despite previous success in acquiring financing, there is no guarantee of obtaining future financings.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. As at December 31, 2023, the Company did not hold any foreign currency and was not subject to foreign currency risk.

16. CAPITAL MANAGEMENT

The Company manages its capital structure, inclusive of cash and cash equivalents, convertible debentures, and shareholder's equity and makes adjustments based on the funds available to the Company. The Company's objectives when managing its capital are to safeguard the Company's ability to continue as a going concern in order to support ongoing initiatives, to provide sufficient working capital to meet its ongoing obligations and to pursue potential acquisitions. The Company is largely dependent upon external financings to fund its operations. In order to carry out any planned business transaction, and to continue to support the general administrative activities, the Company will spend its existing working capital and raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended December 31, 2023. The Company is not subject to externally imposed capital requirements. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

17. COMMITMENTS

The Company had entered into agreements with officers that include termination and change of control clauses. In the case of termination and change of control, the officers are entitled to certain amounts payable. As at December 31, 2023, the Company had two of these types of agreements with officers of the Company that totaled annual base fees of $325,000. In the case of termination, the officers are entitled to an amount equal to $312,163 and a bonus payment based on the average of historical bonus payments made over the last two years. In the case of a change of control, the officers are entitled to an amount equal to $393,413 and a bonus payment based on the average of historical bonus payments over the last two years. In the case of either termination or change of control, any unvested stock options issued to the officers will vest and become exercisable.

(Unaudited – Expressed in Canadian Dollars)

18. DEFERRED INCOME TAXES

Income tax expense differs from the amount that would result from applying Canadian federal and provincial income tax rates to earnings before income taxes. A reconciliation of income taxes at statutory rates with reported taxes is as follows:

		December 31, 2023		December 31, 2022
Income (loss) before income taxes	$	(5,322,032)	$	(16,537,003)
Statutory income tax rate		27%		27%
Income tax benefit computed at statutory tax rate		(1,436,949)		(4,464,991)
Permanent and other differences		(428,974)		3,228,623
Capital and other items		-		227,325
Unrecognized benefit of deferred income tax assets		1,865,923		938,505
Income tax expense (recovery)	$	-	$	(70,538)

Deferred income taxes reflect the net tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's unrecognized temporary differences at December 31, 2023 and 2022 are presented below:

		December 31, 2023		December 31, 2022
Deferred tax assets				
Convertible loan	$	51,000	$	34,000
Lease liability		111,000		144,000
Non-capital tax loss carry forward		116,000		157,000
		278,000		335,000
Deferred tax liabilities				
Equipment		(61,000)		(81,000)
Licenses		(124,000)		(124,000)
Right-of-use asset		(93,000)		(130,000)
		(278,000)		(335,000)
Net temporary differences	$	-	$	-

Deferred tax assets have not been recognized in respect to the following gross temporary differences whereby the Company does not foresee using the deferred tax assets in the near future:

		December 31, 2023		December 31, 2022
Deferred tax assets				
Non-capital tax loss carry forward	$	15,973,000	$	9,231,000
Share issuance costs		191,000		289,000
Gross temporary differences	$	16,164,000	$	9,520,000

(Unaudited – Expressed in Canadian Dollars)

18. DEFERRED INCOME TAXES (continued)

As at December 31, 2023, the Company has Canadian non-capital loss carry forwards of $16,402,000 (December 31, 2022 - $9,811,000) that may be available for tax purposes. The Company's non-capital losses expire as follows:

Expiry Date		
2040	$	380,000
2041		7,699,000
2042		4,516,000
2043		3,807,000
	$	16,402,000

19. RECLASSIFICATION OF PRIOR YEAR COMPARATIVES

Certain comparative period balances have been reclassified to conform with current year classification. In the statements of cash flows, amounts related to lease payments have been amended to separately disclose cash paid for interest and the disclosure included with the supplemental cash flow information to conform with the current year presentation.

20. SUBSEQUENT EVENTS

The Company has evaluated subsequent events from December 31, 2023, the year-end date, to the audit report date, and determined that there have been no material events that have occurred that would require adjustments or disclosure in the consolidated financial statements.