

TETRA BIO-PHARMA INC.
UNAUDITED CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS

For the three months and six months ended May 31, 2022

Tetra Bio-Pharma Inc.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars) (unaudited)

As at	May 31, 2022	November 30, 2021
	\$	\$
ASSETS		
Current assets		
Cash	1,735,200	4,885,811
Sales tax and other receivables (note 4 (i))	2,008,406	255,713
Prepaid expenses	243,188	808,012
Total current assets	3,986,794	5,949,536
Non-current assets		
Equipment (Note 5)	648,380	692,252
Equity method investments (Note 9)	-	690,079
Long-term investment (Note 10)	292,500	219,375
Total non-current assets	940,880	1,601,706
Total assets	4,927,674	7,551,242

Tetra Bio-Pharma Inc.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars) (unaudited)

As at	May 31, 2022	November 30, 2021
	\$	\$
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	5,364,197	4,190,377
Debenture (Note 8)	2,150,000	3,111,531
Total current liabilities	7,514,197	7,301,908
SHAREHOLDERS' (DEFICIT) EQUITY		
Share capital (Note 11)	93,271,081	91,794,397
Warrants (Note 12)	20,769,333	20,089,519
Contributed surplus (note 13)	15,451,292	15,102,140
Deficit	(132,078,229)	(126,736,722)
Total shareholders' (deficit) equity	(2,586,523)	249,334
Total liabilities and shareholders' (deficit) equity	4,927,674	7,551,242

Going concern (Note 2)

Commitments and contingencies (Note 21)

Subsequent events (Note 22)

Approved on behalf of the Board of Directors

(signed) "Brent Norton"
Brent Norton, Chairman of the Board

(signed) "Catherine Anne Auld"
Catherine Anne Auld, Director

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

Tetra Bio-Pharma Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars) (unaudited)

	Three months ended		Six months ended	
	May 31,		May 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Expenses				
Research and development	1,112,945	2,622,078	2,740,890	6,752,010
Stock based compensation (Note 13)	122,603	673,228	274,688	673,228
General and administrative (Note 14)	2,019,677	2,995,147	3,831,066	6,409,151
Debt interest and fees (Note 8)	109,804	712,957	249,506	1,556,408
Loss before other (income) expenses	3,365,029	7,003,410	7,096,150	15,390,797
Other (income) expenses				
Scientific research and experimental development tax credits (Note 4 (i))	(200,000)	-	(2,371,597)	-
Impairment of equity method investments (Note 9)	474,649	-	474,649	-
Share of loss from equity method investments (Note 9)	76,373	197,093	215,430	378,857
Net change in the market value of long term investment (Note 10)	-	663,750	(73,125)	444,375
Total other (income) expenses	351,022	860,843	(1,754,643)	823,232
Net loss and total comprehensive loss	3,716,051	7,864,253	5,341,507	16,214,029
Total basic and diluted loss per common share (Note 15)	0.01	0.02	0.01	0.05
Basic and diluted weighted average number of common shares outstanding	416,379,451	366,494,546	413,922,581	327,149,905

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

Tetra Bio-Pharma Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' (Deficit) Equity

(Expressed in Canadian dollars) (unaudited)

	Share Capital (Note 11)		Warrants (Note 12)	Contributed Surplus (note 13)	Accumulated Deficit	Total (Deficit) Equity
	# of shares	\$	\$	\$	\$	\$
Balance, November 30, 2020	283,826,966	71,374,173	21,326,026	4,450,263	(74,561,676)	22,588,786
Shares issued in bought deal	90,550,000	24,421,000	-	-	-	24,421,000
Shares issued from exercised over-allotment in bought deal	3,750,000	1,500,000	-	-	-	1,500,000
Shares issued as part of private placements	11,085,064	1,884,461	-	-	-	1,884,461
Shares issued on warrant exercise	12,248,079	4,546,235	(945,629)	-	-	3,600,606
Shares issued as part of options exercised	80,000	26,753	-	(9,953)	-	16,800
Deferred Stock Units issued - DSUs	-	-	-	199,999	-	199,999
Performance Share Units issued - PSUs	-	-	-	388,568	-	388,568
Warrants issued in bought deal	-	(7,689,560)	7,689,560	-	-	-
Warrants issued from exercised over-allotment in bought deal	-	(475,606)	475,606	-	-	-
Warrants issued as part of private placements	-	(521,557)	521,557	-	-	-
Expiry of warrants	-	-	(6,911,735)	6,911,735	-	-
Vesting of stock options	-	-	-	84,661	-	84,661
Share issuance costs	-	(3,304,225)	635,920	-	-	(2,668,305)
Transactions with owners	117,713,143	20,387,501	1,465,279	7,575,010	-	29,427,790
Net loss for the period	-	-	-	-	(16,214,029)	(16,214,029)
Balance, May 31, 2021	401,540,109	91,761,674	22,791,305	12,025,273	(90,775,705)	35,802,547
Shares issued on warrant exercise	127,300	32,723	(5,990)	-	-	26,733
Deferred Stock Units issued - DSUs	-	-	-	107,042	-	107,042
Performance Share Unit issued - PSUs	-	-	-	1,901	-	1,901
Expiry of warrants	-	-	(2,695,796)	2,695,796	-	-
Vesting of stock options	-	-	-	272,128	-	272,128
Transactions with owners	127,300	32,723	(2,701,786)	3,076,867	-	407,804
Net loss for the period	-	-	-	-	(35,961,017)	(35,961,017)
Balance, November 30, 2021	401,667,409	91,794,397	20,089,519	15,102,140	(126,736,722)	249,334
Shares issued in public offering (Note 11 b))	13,064,000	2,129,432	-	-	-	2,129,432
Shares issued as part of private placement (Note 11 a))	8,236,681	500,000	-	-	-	500,000
Shares issued as part of Deferred Stock Units converted - DSUs (Note 11 c))	394,734	74,999	-	(74,999)	-	-
Vesting of Performance Share Unit - PSUs	-	-	-	247,348	-	247,348
Warrants issued in public offering (Note 11 b))	-	(777,395)	777,395	-	-	-
Expiry of warrants (Note 12)	-	-	(149,463)	149,463	-	-
Vesting of stock options (Note 13)	-	-	-	27,340	-	27,340
Share issuance costs (Note 11)	-	(450,352)	51,882	-	-	(398,470)
Transactions with owners	21,695,415	1,476,684	679,814	349,152	-	2,505,650
Net loss for the period	-	-	-	-	(5,341,507)	(5,341,507)
Balance, May 31, 2022	423,362,824	93,271,081	20,769,333	15,451,292	(132,078,229)	(2,586,523)

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

Tetra Bio-Pharma Inc.

 Condensed Interim Consolidated Statements of Cash Flows
 (Expressed in Canadian dollars) (unaudited)

	For the three months ended		For the six months ended	
	May 31,		May 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(3,716,051)	(7,864,253)	(5,341,507)	(16,214,029)
Adjustments for:	-	-	-	-
Stock based compensation (Note 13)	122,603	673,228	274,688	673,228
Share of loss from equity method investments (Note 9)	76,373	197,093	215,430	378,857
Unrealized gain on long-term investment (Note 10)	-	663,750	(73,125)	444,375
Amortization of intangible assets (Note 7)	-	13,921	-	13,921
Amortization of equipment (Note 5)	21,936	19,354	43,872	35,461
Accrued interest (Note 8)	-	-	111,531	-
Impairment of equity method investments (Note 9)	474,649	-	474,649	-
Changes in working capital items (Note 16)	1,103,041	(4,572,334)	(14,049)	(54,474)
Net cash (used) in operating activities	(1,917,449)	(10,869,241)	(4,308,511)	(14,722,661)
INVESTING ACTIVITIES				
Acquisition of equity method investments (Note 9)	-	(1)	-	(312,501)
Acquisition of intangible assets (Note 6)	-	(741,819)	-	(757,127)
Acquisition of equipment (Note 5)	-	(48,711)	-	(227,129)
Net cash (used) in investing activities	-	(790,531)	-	(1,296,757)
FINANCING ACTIVITIES				
Units issued in public offering	-	-	2,129,432	-
Units issued in bought deal (Note 11 a) and 12)	-	22,536,539	-	24,421,000
Units issued from exercised compensation warrants in bought deal	-	1,500,000	-	1,500,000
Shares issued as part of private placements	500,000	1,884,461	500,000	1,884,461
Issuance of debenture	-	1,250,000	-	3,000,000
Repayment of debenture (Note 8)	(498,132)	-	(1,073,062)	-
Warrants exercised	-	3,564,206	-	3,600,606
Stock options exercised	-	16,800	-	16,800
Convertible debentures	-	(1,216,660)	-	(2,000,000)
Share issuance costs (Note 11 a))	(20,050)	(2,668,305)	(398,470)	(2,668,305)
Total net cash provided by financing activities	(18,182)	26,867,041	1,157,900	29,754,562
Change in cash	(1,935,631)	15,207,269	(3,150,611)	13,735,144
Cash, beginning of the period	3,670,831	1,028,487	4,885,811	2,500,612
Cash, end of the period	1,735,200	16,235,756	1,735,200	16,235,756

Supplemental cash flow information is provided in Note 16

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

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

As at May 31, 2022 and 2021 and for the three-months and six-months ended May 31, 2022 and 2021

(Amounts are in Canadian dollars, unless otherwise noted) (unaudited)

1. Nature of operations

Tetra Bio-Pharma Inc. (“Tetra” or the “Company”) was incorporated under the *Canada Business Corporations Act* on May 17, 2007. The Company’s common shares and certain warrants are listed on the Toronto Stock Exchange (“TSX”) under the symbol TBP, TBP.WT. A, TBP.WT. B and TBP.WT.C and its common shares trade on the OTCQB under the symbol TBPMF.

Tetra is a development stage biopharmaceutical company in immunomodulator drug discovery and development with a U.S. Food and Drug Administration (“FDA”) and a Health Canada approved clinical program aimed at bringing novel prescription drugs and treatments to relieve symptoms associated with advanced cancer pain, chronic pain, Acute Respiratory Distress Syndrome (“ARDS”), sepsis and ocular disease. Tetra’s head office is located at 2316 St. Joseph Blvd., Orleans, Ontario, K1C 1E8.

There can be no assurance that any of the Company’s prospective drug development projects will be successfully developed into commercially sustainable operations or at all.

2. Going concern

These consolidated financial statements (“financial statements”) have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting year. The Company has not yet determined whether its clinical trials will be successfully developed into commercially sustainable operations or at all. The Company has not generated any positive cash flows from its operations from inception to date. The Company has an accumulated deficit of \$132,078,229 as at May 31, 2022 (November 30, 2021 - \$126,736,722).

During the six month period ended May 31, 2022, the Company incurred a net loss of \$5,341,507 (2021 - \$16,214,029) and as at May 31, 2022, the Company had a working capital deficit of \$3,527,403 (November 30, 2021 - \$1,352,372), including \$1,735,200 (November 30, 2021 - \$4,885,811) in cash, and current liabilities totalling \$7,514,197 (November 30, 2021 - \$7,301,908). These conditions indicate the existence of material uncertainties that cast significant doubt about the Company’s ability to continue as a going concern. The Company must secure additional financing to be able to fund its ongoing clinical trials. Management is evaluating various alternatives to secure the necessary financing so that the Company can continue as a going concern. Nevertheless, there is no assurance that these initiatives will be successful.

The carrying amount of assets, liabilities and expenses presented in the financial statements and the classification used in the statements of financial position have not been adjusted as would be required if the going concern assumption was not appropriate. Those adjustments could be material.

The rise in COVID-19 variants in early 2022 has continued the COVID-19 pandemic and the Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company. For the period ended May 31, 2022, the Company assessed the impact of the uncertainties around the COVID-19 pandemic on its judgments, estimates, accounting policies and amounts recognized in these unaudited condensed interim consolidated financial statements and determined that no adjustments were required to the carrying value of assets and liabilities. The Company will continue to monitor the impact of the development of the COVID-19 pandemic in further reporting periods. Actual results could differ from these estimates, and such differences may be material.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

As at May 31, 2022 and 2021 and for the three-months and six-months ended May 31, 2022 and 2021

(Amounts are in Canadian dollars, unless otherwise noted) (unaudited)

3. Statement of compliance

These financial statements are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting, ("IAS 34"), using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

The preparation of the financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgments in applying the Company's accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

These financial statements were approved by the Board of Directors on July 13, 2022.

4. Significant accounting policies

Accounting policies applied in financial statements

The accounting policies applied in these consolidated financial statements are consistent with those applied and disclosed in the company's annual consolidated financial statements for the year ended November 30, 2021 unless otherwise disclosed herein. These financial statements do not include all the information and disclosures required in the consolidated annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended November 30, 2021.

(a) Basis of presentation and measurement

These financial statements have been prepared on a historical cost basis unless otherwise stated.

Certain comparative figures for the periods ended May 31, 2021 have been reclassified in order to conform to the presentation adopted for the periods ended May 31, 2022.

(b) Functional currency

The functional currency of the Company, and each of its subsidiaries, is the currency of the primary economic environment in which the entity operates. Management has determined that the functional currency of each entity is the Canadian dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the rate at the time of the transaction. Any resulting gain or loss is recorded in the statement of loss.

(c) Basis of consolidation

These financial statements incorporate the financial statements of the Company and its subsidiaries. Tetra Bio-Pharma Inc. is the ultimate parent company of the consolidated group. Subsidiaries are consolidated from the date on which the Company obtains control and continue to be consolidated until control ceases. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. These financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

As at May 31, 2022 and 2021 and for the three-months and six-months ended May 31, 2022 and 2021

(Amounts are in Canadian dollars, unless otherwise noted) (unaudited)

4. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

Where the ownership of a subsidiary is less than 100%, and a non-controlling interest exists, any losses of that subsidiary are attributed to the non-controlling interests even if that results in a deficit. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The active subsidiaries of the Company at May 31, 2022, and their principal activities are described below:

Name of subsidiary	Place of incorporation	Ownership interest	Principal activity
PhytoPain Pharma Inc.	Canada	100%	Drug discovery & drug development
Panag Pharma Inc. ("Panag")	Canada	100%	Discovery & development of patent protected molecules & compounds.
Tetra Bio-Pharma Europe Ltd.	Malta	100%	European clinical and regulatory activities
ENJOUCA Inc.	Canada	100%	Commercialization of medical cannabis products

In March 2022, the Company disposed of its shares in 2714140 Ontario Inc. for nominal consideration.

(d) Equity method investments

Significant influence investment

An associate is an entity in which the Company or its subsidiaries have significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in, without having control over, the financial and operating policy decisions of the entity, and generally exists where between 20% and 50% of the voting power of the entity is held by the Company or its subsidiaries.

As at May 31, 2022, the Company assessed its investment in Targeted Pharmaceutical LLC ("Targeted") as an investment in an associate, and has accounted for it under the equity method (Note 9).

Name of associate	Place of incorporation	Ownership interest	Principal activity
Targeted Pharmaceutical LLC	United States of America	20%	Research collaboration with George Mason University's National Center for Biodefense and Infectious Diseases (NCBID)

Joint arrangement

A joint arrangement is defined as one over which two or more parties have joint control, which is the contractually agreed sharing of control over an arrangement. This exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. There are two types of joint arrangements, joint operations ("JO") and joint ventures ("JV"). A JO is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. A JV is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

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(Amounts are in Canadian dollars, unless otherwise noted) (unaudited)

4. Significant accounting policies (continued)

(d) Equity method investments (continued)

Joint arrangement (continued)

As at May 31, 2022, the Company assessed its investment in TALLC Corporation Inc. ("TALLC") as a JV, and has accounted for it under the equity method (Note 9).

Name of joint arrangement	Place of incorporation	Ownership interest	Principal activity
TALLC Corporation Inc.	Canada	50%	Research and development in pain management and eye disease medication

(e) Provisions and contingent liabilities

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

In those cases, where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The Company had no material provisions as of May 31, 2022 and November 30, 2021 (Note 21).

(f) Stock-based compensation

Deferred Share Units ("DSUs"), Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") Plan

Where DSUs, RSUs and PSUs are cash-settled, the fair value of the units awarded, representing the fair market value of the Company's shares is recognized as share-based compensation expense at grant date with a corresponding amount recorded as a share-based liability. The fair value of the units is re-measured at the end of each reporting year and at the date of settlement, with changes in fair value recognized as share-based compensation expense in the year. Where DSUs, RSUs and PSUs are equity-settled, the fair value of the units at the date of grant is charged to the statement of loss over the vesting year. Equity-settled units are not subsequently remeasured.

Performance vesting conditions are taken into account by adjusting the number of units expected to vest at each reporting date so that, ultimately the cumulative amount recognized over the vesting year is based on the number of units that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the units granted.

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Notes to the Condensed Consolidated Interim Financial Statements

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(Amounts are in Canadian dollars, unless otherwise noted) (unaudited)

4. Significant accounting policies (continued)

g) Revenue Recognition

The Company may enter into licensing and collaboration agreements for product development, licensing, supply and manufacturing for its product pipeline. The terms of the agreements may include non-refundable signing and licensing fees, milestone payments and royalties on any product sales derived from collaborations. These contracts are analyzed to identify all performance obligations forming part of these contracts. The transaction price of the contract is then determined. Revenue is measured based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer

Licensing and Collaboration Arrangements

Licenses are considered to be right-to-use licenses. As such, the Company recognizes the licenses revenues at a point in time, upon granting the licenses. Milestone payments are considered variable consideration. As such, the Company estimates variable consideration at the most likely amount to which we expect to be entitled. The estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. At the end of each subsequent reporting period, the Company re-evaluates the probability of achievement of such development milestones and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect license, research and other revenues in the period during which the adjustment is recognized. The process of successfully achieving the criteria for the milestone payments is highly uncertain. Consequently, there is significant risk that the Company may not earn all of the milestone payments for each of its contracts.

Royalties are typically calculated as a percentage of net sales realized by the Company's licensees of its products (including their sub-licensees), as specifically defined in each agreement. The licensees' sales generally consist of revenues from product sales of the Company's product pipeline and net sales are determined by deducting the following: distribution fees and discounts. Revenues arising from royalties are considered variable consideration. As such, the Company estimates variable consideration at the most likely amount to which we expect to be entitled. The estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

(h) Issued but not yet adopted accounting pronouncements

Recent Accounting Pronouncements

IFRS 10 Consolidated Financial Statements ("IFRS 10") and IAS 28 Investments in Associates and Joint Ventures ("IAS 28")

IFRS 10 and IAS 28 were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined; however early adoption is permitted.

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(Amounts are in Canadian dollars, unless otherwise noted) (unaudited)

4. Significant accounting policies (continued)

The Company is currently evaluating the impact of these amendments on its financial statements and intends to adopt these amendments as of their effective dates.

(i) *Use of estimates*

Investment tax credits

Investment tax credits relating to qualifying expenditures are recognized in the accounts at the time at which the related expenditures are incurred and there is reasonable assurance of their realization. Management has made estimates and assumptions in determining the expenditures eligible for investment tax credits claimed.

During the six months ended May 31, 2022, certain government audits were completed giving the Company sufficient assurance that their projects qualified for certain investment tax credits. As a result, scientific research and experimental development tax credits were recorded in the interim consolidated statements of loss and comprehensive loss for \$2,371,597 (2021 - \$nil). During the three and six months ended May 31, 2022, the Company received \$612,683 in payments of these other receivables.

5. Equipment

The following is a summary of equipment as at May 31, 2022 and November 30, 2021:

Carrying amount	\$
Balance as at November 30, 2020	434,513
Additions	336,026
Amortization expense	(78,287)
Balance as at November 30, 2021	692,252
Amortization expense	(43,872)
Balance as at May 31, 2022	648,380

6. Intangible assets

The following is a summary of intangible assets as at May 31, 2022 and November 30, 2021:

Carrying amount	Natural Health			Total
	Product numbers	Clinical trials	Licenses	
	\$	\$	\$	\$
Balance as at November 30, 2020	-	20,780,035	2,413,578	23,193,613
Acquired during the year	-	-	818,496	818,496
Amortization expense	-	-	(33,660)	(33,660)
Revaluation of intangible assets	-	(20,780,035)	(3,198,414)	(23,978,449)
Balance as at November 30, 2021	-	-	-	-
Balance as at May 31, 2022	-	-	-	-

Clinical trials

As at May 31, 2022, the Company remains in the clinical development phase with the ongoing clinical trials: Reborn[®] and Plentitude[®] trials for advanced cancer pain. As a result, the intangibles related to these clinical

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(Amounts are in Canadian dollars, unless otherwise noted) (unaudited)

6. Intangible assets (continued)

trials have not been depreciated as management assessed that these assets are not yet ready for use.

Licenses

As at May 31, 2022, the Company has the following licenses: development and commercialization licenses of a Dronabinol Soft Gel capsules and of Dronabinol Adversa™ with IntelGenx Corp. as well as an exclusive license to use Vitiprints LLC.'s printing technology for commercial manufacturing of Caumz™ and HCC-011.

These intangible assets related to licenses are part of ongoing clinical trials in which the drug development program is still in the research and development phases. As a result, certain licenses have not been depreciated as management assessed that these assets are not yet ready for use.

During the year ended November 30, 2021, the Company determined that its intangible assets were impaired. During the six month period ended May 31, 2022, costs incurred related to these assets have been expensed.

7. Government assistance

Government grants are recognized when the Company qualifies for such grants and where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. The grant is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge.

During 2020 and 2021, the Company received loans from the Atlantic Canada Opportunities Agency ("ACOA") in the amount of \$500,000. The ACOA loans were initially recognized at their IFRS 13 fair value (Level 3) and are subsequently carried at amortized cost as determined by using a discounted cash flow analysis. The discount rate used under the amortized cost method to assess the present value of the future cash outflows was estimated to be 20%. The loans were initially recorded at a value of \$212,038. The loans are being repaid in monthly installments of \$5,208 which commenced on September 1, 2021 and are expected to end on August 1, 2029.

8. Debentures

On February 17, 2021, Tetra entered into a note purchase agreement for an aggregate amount of up to \$3,000,000 of non-convertible debentures, maturing within 24 months from the closing date. The non-convertible debenture carries a 15% annual interest with interest payment made monthly. The Company has the right to defer payment of an accrued 5% of the Initial Base Interest from time to time subject to the conditions detailed in the note purchase agreement. The non-convertible debenture carries several financial and non financial covenants and is secured by a general security agreement over all of the assets of Tetra and its subsidiaries.

As at November 30, 2021, the Company was in violation of one of the covenants and, as a result, reclassified the loan to current liabilities, resulting in the debentures being revalued at November 30, 2021 to their face value plus accrued interest as a result of the violation. This situation has not yet been resolved. As such, the Company has been following a repayment plan with its lender which has provided waivers for certain affirmative covenants set forth in the Note Purchase Agreement.

As at May 31, 2022, the Company had drawn \$3,000,000 (November 30, 2021 - \$3,000,000) of the non-convertible debentures and had outstanding principal and interest of \$2,150,000 (November 30, 2021 - \$3,111,531) on the non-convertible debentures.

Tetra Bio-Pharma Inc.

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9. Equity method investments

The following tables present changes in the Company's investments accounted for using the equity method during the period ended May 31, 2022, and year November 30, 2021.

<u>Entity</u>	<u>Instrument</u>	<u>Ownership percentage</u>	<u>Balance at November 30, 2021</u>	<u>Additions</u>	<u>Share of net loss</u>	<u>Revaluation of equity investments</u>	<u>Balance at May 31, 2022</u>
		%	\$	\$	\$	\$	\$
TALLC	Shares	50	690,079	-	(215,430)	(474,649)	-
			<u>690,079</u>	<u>-</u>	<u>(215,430)</u>	<u>(474,649)</u>	<u>-</u>

<u>Entity</u>	<u>Instrument</u>	<u>Ownership percentage</u>	<u>Balance at November 30, 2020</u>	<u>Additions</u>	<u>Share of net loss</u>	<u>Revaluation of equity investments</u>	<u>Balance at November 30, 2021</u>
		%	\$	\$	\$	\$	\$
TALLC	Shares	50	678,427	712,500	(700,848)	-	690,079
Targeted	Shares	20	646,630	253,000	(248,443)	(651,187)	-
			<u>1,325,057</u>	<u>965,500</u>	<u>(949,291)</u>	<u>(651,187)</u>	<u>690,079</u>

Impairment of equity investment in Targeted Pharmaceuticals LLC ("Targeted")

As of May 31, 2022, Targeted has not developed commercial assets and has not had positive cashflow from operations. Management has determined that Targeted will require a significant investment to complete the required clinical trials, studies and other efforts needed to commercialize these assets under the FDA and Health Canada approvals in order to market these products.

During the year ended November 30, 2021, in accordance with IAS 36, *Impairment of Assets*, the Company determined that the recoverable amount of the equity investments did not support their continued value and impaired its investment in Targeted at November 30, 2021, which was presented as an impairment of equity investments of \$651,187 in the consolidated statement of loss.

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9. Equity method investments (continued)

TALLC Corporation Inc. ("TALLC")

On January 8, 2020, the Company entered into a shareholder agreement with Altus Formulations ("Altus") to form TALLC, a Quebec based company, as a JV for the purposes of advancing the early-stage research and development with Altus. Under the terms of the shareholders' agreement both the Company and TALLC have even representation on the board and management of the JV with all decisions requiring both companies' consent to be approved.

Pursuant to the terms of the shareholder agreement, Altus initially owned 100% of the equity interests of TALLC, with the Company having the option to acquire 12.5% ownership every three months at a price of \$312,500 for each 12.5% interest for a total of 50% ownership in TALLC. Upon making all 4 quarterly payments the final ownership structure is 50:50 between Altus and Tetra. In addition to the initial shareholder agreement, during the period ended November 30, 2021, both Tetra and Altus contributed an additional \$400,000 each to TALLC. As at May 31, 2022, Tetra had paid \$1,650,000 and owns 50% of TALLC with Altus owning the remaining 50%.

During the three months ended May 31, 2022, in accordance with IAS 36, *Impairment of Assets*, the Company determined that the recoverable amount of the equity investments did not support their continued value and impaired its investment in TALLC at May 31, 2022, which was presented as an impairment of equity investments of \$474,649 in the condensed consolidated interim statement of loss.

The following table summarizes the financial information of TALLC for the period from December 1, 2021 to May 31, 2022 and for the year from December 1, 2020 to November 30, 2021.

	December 1, 2021 - May 31, 2022	December 1, 2020 - November 30, 2021
	\$	\$
Cash and cash equivalents	143,946	478,588
Current assets	853,586	994,940
Non-current assets	165,000	210,000
Current liabilities	106,766	187,786
Depreciation and amortization expense	45,000	90,000
General and administrative expenses	385,860	1,324,879
Net loss	430,860	1,414,879

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10. Long-term investment and Divestiture of Lumiera Health Innovations Inc.

	Fair value November 30, 2021	Investment	Divestiture/ Transfer	Change in fair value	Fair value May 31, 2022
	\$	\$	\$	\$	\$
Lumiera Health Inc.	219,375	-	-	73,125	292,500

	Fair value November 30, 2020	Investment	Divestiture/ Transfer	Change in fair value	Fair value November 30, 2021
	\$	\$	\$	\$	\$
Lumiera Health Inc.	804,375	-	-	(585,000)	219,375

During the year ended November 30, 2020, the Company obtained as consideration for the sale of Lumiera Health Innovations Inc. a total of 14,625,000 class A common shares of Lumiera Health Inc. (formerly Mondias Natural Health Products Inc., "Lumiera") valued at \$804,375 based on the quoted market price of these common shares at the time of the sale. These shares are pledged as security and cannot be traded, to support the guarantee provided for the convertible debenture of Lumiera (Note 21). Fair value is determined based on the quoted market value of the underlying shares.

11. Share capital

The authorized share capital consists of an unlimited number of common shares with no par value.

2022 Fiscal year issuances

- a) On May 5, 2022, the Company announced its partnership with Cannvalate Pty Ltd ("Cannvalate"), whereby Cannvalate agreed to acquire common shares of the Company on a private placement basis, through seven (7) distinct tranches for aggregate proceeds of \$7,500,000. On May 17, 2022, the Company closed the first tranche of the private placement resulting in the issuance of 8,236,681 common shares at a price of \$0.06 per common share for gross proceeds to the Company of \$500,000, with share issuance costs of \$20,050. The subscription price per common share issuable under the first tranche was at a discount of 7% to the 5-day volume weighted average price of the common shares on the TSX on May 4, 2022, the day of execution of the subscription agreement. Under certain circumstances, all tranches may not be completed.
- b) On December 21, 2021, the Company completed a public offering for a total of 13,064,000 units consisting of one common share of the Company and one common share purchase warrant at a price of \$0.163 per unit, for aggregate gross proceeds of \$2,129,432. Each Warrant entitles the holder thereof to purchase one common share of the Company at a price of \$0.195 until December 21, 2025.

The 13,064,000 warrants issued in connection to the public offering have been recorded at an estimated value of \$777,395 using a proportional method based on the Black-Scholes option pricing model (note 12). In connection with this public offering, the Company paid an agent's fee of \$149,060 and, in addition, issued 914,480 agent's warrants as commission, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.163 per share for a year of 3 years following the closing date. The 914,480 compensation warrants have been recorded at an estimated value of \$51,882 based on the Black Scholes option pricing model (note 12).

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(Amounts are in Canadian dollars, unless otherwise noted) (unaudited)

11. Share capital (continued)

- c) During the six months ended May 31, 2022, former Directors of the Company issued redemption notices providing for the settlement of 394,734 DSUs with the issuance of the underlying common shares on March 14, 2022. The Company reclassified \$74,999 from Contributed surplus to Share capital representing the Black-Scholes value of such DSUs upon their grant.

2021 Fiscal year issuances

- d) On May 17, 2021, the Company completed a bought deal offering of 25,000,000 units at a price of \$0.40 per unit for aggregate gross proceeds of \$10,000,000. Each unit consists of one common share and one warrant, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.51 per share for a year of 2 years following the closing date.

The 25,000,000 warrants issued in connection to the bought deal offering have been recorded at an estimated value of \$3,159,158 using a proportional method based on the Black Scholes option pricing model using the following assumptions: share price of \$0.27, exercise price of \$0.51, risk free interest rate of 0.33%, expected life of warrants of 2 years, expected volatility of 117% based on the Company's share price historical volatility and expected dividend rate of 0%.

In connection with this bought deal offering, the Company paid an agent's fee of \$700,000 and in addition, issued 1,750,000 agent's warrants as commission, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.40 per share for a year of 2 years following the closing date.

The 1,750,000 compensation warrants have been recorded at an estimated value of \$245,946 based on the Black Scholes option pricing model, using the following assumptions: share price of \$0.27, an average exercise price of \$0.40, risk free interest rate of 0.33%, expected life of 2 years, expected volatility rate of 117% based on the Company's share price historical volatility.

- e) In connection with the bought deal offering (Note 12(a)), on May 21, 2021, the Company closed an over-allotment option for aggregate gross proceeds of \$1,500,000. A total of 3,750,000 units were sold at a price of \$0.40 per unit. Each unit consists of one common share and one warrant, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.51 per share for a year of 2 years following the closing date.

The 3,750,000 warrants issued in connection to the over-allotment option have been recorded at an estimated value of \$475,606 using a proportional method based on the Black Scholes option pricing model using the following assumptions: share price of \$0.27, exercise price of \$0.51, risk free interest rate of 0.33%, expected life of warrants of 2 years, expected volatility of 117% based on the Company's share price historical volatility and expected dividend rate of 0%.

In connection with this over-allotment option, the Company paid an agent's fee of \$105,000 and in addition, issued 262,500 agent's warrants as commission, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.40 per share for a year of 2 years following the closing date.

The 262,500 compensation warrants have been recorded at an estimated value of \$36,992 based on the Black Scholes option pricing model, using the following assumptions: share price of \$0.27, an average exercise price of \$0.40, risk free interest rate of 0.33%, expected life of 2 years, expected volatility rate of 117% based on the Company's share price historical volatility.

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11. Share capital (continued)

- f) On March 2, 2021, the Company completed a bought deal offering of 65,550,000 units at a price of \$0.22 per unit for aggregate gross proceeds of \$14,421,000. Each unit consists of one common share and one warrant, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.28 per share for a year of 3 years following the closing date.

The 65,550,000 warrants issued in connection to the bought deal offering have been recorded at an estimated value of \$4,530,402 using a proportional method based on the Black Scholes option pricing model using the following assumptions: share price of \$0.15, exercise price of \$0.28, risk free interest rate of 0.27%, expected life of warrants of 3 years, expected volatility of 95% based on the Company's share price historical volatility and expected dividend rate of 0%.

In connection with this bought deal offering, the Company paid an agent's fee of \$1,009,470 and in addition, issued 4,588,500 agent's warrants as commission, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.22 per share for a year of 3 years following the closing date.

The 4,588,500 compensation warrants have been recorded at an estimated value of \$352,982 based on the Black Scholes option pricing model, using the following assumptions: share price of \$0.15, an average exercise price of \$0.22, risk free interest rate of 0.27%, expected life of 3 years, expected volatility rate of 95% based on the Company's historical volatility for 2 years up to the issuance date and expected dividend rate of 0%.

- g) On February 3, 2021, the Company completed a non-brokered private placement of 11,085,064 units at a price of \$0.17 per unit for aggregate gross proceeds of \$1,884,461. Each unit consists of one common share and one warrant, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.21 per share for a year of 2 years following the closing date.

The 11,085,064 warrants issued in connection to the private placement listed above have been recorded at an estimated value of \$521,557 using a proportional method based on the Black Scholes option pricing model using the following assumptions: share price of \$0.12, exercise price of \$0.21, risk free interest rate of 0.17%, expected life of warrants of 2 years, expected volatility of 98% based on the Company's share price historical volatility and expected dividend rate of 0%.

- h) During the period ended May 31, 2021, a total of 12,248,079 common share purchase warrants were exercised for gross proceeds of \$3,600,606. The warrants had an average exercise price between \$0.22 and \$0.32 with an expiry date between May 22, 2023 and March 2, 2024.

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12. Warrants

The following table reflects the continuity of warrants as at May 31, 2022 and November 30, 2021:

	Number of warrants	Grant date fair value	Weighted average exercise price
		\$	\$
Outstanding, November 30, 2020	126,325,222	21,326,026	0.64
Issued in bought deal	65,550,000	4,530,402	0.28
Agent's warrants issued in bought deal	4,588,500	352,982	0.22
Issued in bought deal	25,000,000	3,159,158	0.51
Agent's warrants issued in bought deal	1,750,000	245,946	0.40
Shares issued from exercised over-allotment in bought deal	3,750,000	475,606	0.51
Agent's warrants issued in over-allotment in bought deal	262,500	36,992	0.40
Issued as part of a private placement	11,085,064	521,557	0.21
Expired	(25,151,078)	(9,607,531)	1.24
Exercised	(12,375,379)	(951,619)	0.29
Outstanding, November 30, 2021	200,784,829	20,089,519	0.42
Issued in public offering (Note 11 b))	13,064,000	777,395	0.20
Agent's warrants issued in public offering (Note 11 b))	914,480	51,882	0.16
Expired	(1,885,547)	(149,463)	0.26
Outstanding, May 31, 2022	212,877,762	20,769,333	0.41

The 13,064,000 warrants issued in connection to the public offering have been recorded at an estimated value of \$777,395 using a proportional method based on the Black-Scholes option pricing model. using the following assumptions: share price of \$0.10, exercise price of \$0.195, risk free interest rate of 1.19%, expected life of warrants of 4 years, expected volatility of 99% based on the Company's share price historical volatility and expected dividend rate of 0%.

In connection with this public offering, the Company issued 914,480 agent's warrants as commission, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.163 per share for a year of 3 years following the closing date, using the following assumptions: share price of \$0.10, an average exercise price of \$0.163, risk free interest rate of 1.19%, expected life of 3 years, expected volatility rate of 103% based on the Company's share price historical volatility.

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12. Warrants (continued)

The number of outstanding warrants, exercisable in an equivalent number of common shares is as follows:

Number of warrants	Grant date fair value	Exercise price	Expiry date
#	\$	\$	
26,833,332	2,736,082	0.40	July 12, 2022
700,100	71,228	0.40	August 2, 2022
10,957,764	515,567	0.21	February 3, 2023
29,245,300	4,724,054	0.75	February 13, 2023
2,047,171	330,683	0.75	February 13, 2023
4,386,795	708,608	0.75	February 13, 2023
307,076	49,603	0.75	February 13, 2023
25,000,000	3,159,158	0.51	May 17, 2023
1,750,000	245,946	0.40	May 17, 2023
3,750,000	475,606	0.51	May 17, 2023
262,500	36,992	0.40	May 17, 2023
28,894,000	2,383,520	0.32	May 22, 2023
61,329,744	4,238,725	0.28	March 2, 2024
3,435,500	264,284	0.22	March 2, 2024
914,480	51,882	0.16	December 21, 2024
13,064,000	777,395	0.20	December 21, 2025
212,877,762	20,769,333		

13. Contributed Surplus

During the year ending November 30, 2020, the Company replaced the initial 10% rolling stock option plan (the "SOP"), with the new omnibus equity incentive compensation plan which came into effect as of August 13, 2020 (the "Omnibus Incentive Plan"). The amendment to the initial SOP was approved by the shareholders of the Company at the annual meeting of shareholders held on June 5, 2020.

On May 28, 2021, at the annual general shareholders' meeting, the Company's shareholders approved the amendment and restatement of the initial stock option plan. The amended and restated omnibus equity incentive plan (the "A&R Omnibus Plan") is intended to increase flexibility of granting different types of long-term incentive compensation securities to non-executive directors, officers, employees and consultants of the Company. The A&R Omnibus Plan includes issuances of stock options, deferred share units ("DSUs"), performance-based share units ("PSUs") and restricted share units ("RSUs").

The above descriptions of the SOP and the A&R Omnibus Plan are qualified in its entirety by the full text of these plans.

2022 stock options activity

Expired and forfeited stock options

On February 23, 2022, 150,000 stock options previously granted to a director of the Company expired. The stock options were exercisable at \$0.70 and had an original expiry date of February 23, 2022. The expired stock options had a value of \$96,000 based on the Black-Scholes option pricing model.

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13. Contributed Surplus (continued)

On February 28, 2022, 500,000 stock options previously granted to consultant of the Company were expired. The stock options were exercisable at \$0.28 and had an expiry date of July 22, 2024, which was accelerated to May 31, 2022 due to the cancellation of the contract. The expired stock options had a value of \$80,148 based on the Black-Scholes option pricing model.

Unvested stock options

As at May 31, 2022, the Company had 1,850,000 issued and outstanding but unvested stock options. The stock options have been valued at \$321,762 based on the Black-Scholes option pricing model at the time the stock options were granted. The Company has not yet recorded any stock based compensation expense for these stock options as they have not vested during the current period.

During the six-month period ended May 31, 2022, the Company recorded \$54,056 as a non-cash expense and reversed an amount of \$26,716 on stock options issued and then canceled for a net result of \$27,340 (2021- \$84,661), respectively, relating to stock options.

The following table shows the continuity of stock options:

	Number of options	Grant date fair value	Weighted average exercise price
		\$	\$
Outstanding, November 30, 2020	5,385,583	2,146,292	0.67
Granted	3,500,000	479,439	0.22
Forfeited	(53,333)	(6,636)	0.21
Exercised	(80,000)	(9,953)	0.21
Expired	(3,175,000)	(1,723,147)	0.65
Outstanding, November 30, 2021	5,577,250	885,995	0.41
Expired	(650,000)	(176,148)	0.41
Outstanding, May 31, 2022	4,927,250	709,847	0.41

The following table shows the stock options outstanding as at May 31, 2022:

Options outstanding	Options unvested	Options vested	Grant date fair value	Exercise price	Expiry date
			\$	\$	
100,000	-	100,000	20,677	0.32	August 15, 2022
75,000	-	75,000	55,648	0.69	February 8, 2023
1,000,000	1,000,000	-	216,226	0.37	March 8, 2023
1,500,000	500,000	1,000,000	137,299	0.20	March 5, 2023
500,000	-	500,000	45,766	0.20	March 8, 2023
1,402,250	-	1,402,250	174,461	0.21	June 24, 2023
350,000	350,000	-	59,770	0.20	July 6, 2025
4,927,250	1,850,000	3,077,250	709,847		

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13. Contributed Surplus (continued)

DSUs, PSUs and RSUs activity

The following table shows the continuity of DSUs and PSUs:

	Number of DSUs	Number of PSUs
	#	#
Outstanding, November 30, 2020	-	-
Granted	1,616,008	30,000,000
Forfeited	(131,578)	(8,400,000)
Outstanding, November 30, 2021	1,484,430	21,600,000
Forfeited	-	(1,000,000)
Redeemed	(394,734)	-
Outstanding, May 31, 2022	1,089,696	20,600,000

No RSUs have been issued.

During 2022, former Directors of the Company issued redemption notices providing for the settlement of 394,734 DSUs (note 11 c)).

As at May 31, 2022, there were 20,600,000 (November 30, 2021 – 21,600,000) PSUs granted of which none have vested. Based on the various pre-established performance targets, management estimated the likelihood of the PSUs eventually vesting and recognized a stock based compensation expense of \$122,603 for the three month period ended May 31, 2022 (2021 - \$388,568) and \$274,688 for the six month period ended May 31, 2022 (2021 - \$673,228).

14. General and administrative

	Three months ended		Six months ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
			\$	\$
Management fees	1,170	-	1,170	-
Payroll and benefits	992,171	1,493,575	1,933,716	2,599,557
Professional fees	578,352	1,089,399	1,112,964	2,419,212
Exchange and regulatory fees	104,443	166,920	171,219	248,051
Foreign exchange loss	155	(72,744)	6,279	(79,706)
Other income and interest	(2,796)	(62,439)	(5,096)	(62,439)
Travel and promotion expense	79,037	77,816	115,304	95,228
Amortization of equipment (Note 6)	21,936	19,354	43,872	35,461
Amortization of intangibles (Note 7)	-	13,921	-	13,921
Office, insurances and miscellaneous	245,209	269,345	451,638	1,139,866
Total	2,019,677	2,995,147	3,831,066	6,409,151

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15. Loss per common share

Net loss per common share is calculated by dividing net loss by the weighted average number of shares outstanding during the relevant period. Diluted weighted average number of shares reflects the dilutive effect of equity instruments, such as any “in the money” stock options, DSUs, PSUs, RSUs and warrants. In periods with reported net losses, all stock options and warrants are deemed anti-dilutive such that basic net loss per share and diluted net loss per share are equal, and thus “in the money” stock options and warrants have not been included in the computation of net loss per share because to do so would be anti-dilutive.

16. Changes in non-cash working capital items and supplemental cash flow information

	Three months ended		Six months ended	
	May 31,		May 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Sales tax and other receivable	551,384	(44,531)	(1,752,693)	117,290
Prepaid expenses	806,947	(676,862)	564,824	(639,321)
Accounts payable and accrued liabilities	18,099	(3,850,941)	1,173,820	467,557
Deferred revenue	(273,389)	-	-	-
Total	1,103,041	(4,572,334)	(14,049)	(54,474)

Non-cash transactions

During the three month period ended May 31, 2022, the value of the warrants and share-based payments exercised and transferred to share capital was \$nil (2021 - \$934,532). During the six month period ended May 31, 2022, the value of the warrants and share-based payments exercised and transferred to share capital was \$nil (2021 - \$945,629).

17. Related party balances and transactions

Related parties include the Board of Directors and key management personnel, as well as close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received.

(a) Transactions with key management personnel

Remuneration of directors and key management personnel of the Company was as follows:

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17. Related party balances and transactions (continued)

	Three months ended		Six months ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
	\$	\$	\$	\$
Management and professional fees	1,170	30,000	1,170	80,000
Payroll and benefits	256,307	695,119	564,538	1,173,001
	257,477	725,119	565,708	1,253,001
Options-based compensation	-	84,661	27,340	84,661
Deferred Stock Units issued - DSUs	-	199,999	-	199,999
Performance Share Unit issued - PSUs	122,603	388,568	247,348	388,568
	122,603	673,228	274,688	673,228
	380,080	1,398,347	840,396	1,926,229

18. Capital management

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to achieve optimal returns for shareholders and benefits for other stakeholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. The Company considers its capital to be equity, which is comprised of share capital, reserves and accumulated surplus which totalled a deficit of \$2,301,318 as at May 31, 2022 (November 30, 2021 – surplus of \$249,334).

All of the Company's ongoing projects remain in the clinical development phase. As such, the Company is dependent on external financing to fund its activities. In order to fund its research, carry out its operations and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts when economic conditions permit it to do so.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital in current economic conditions by:

- (i) minimizing discretionary disbursements;
- (ii) focusing on obtaining Health Canada and FDA approvals for clinical trials; and
- (iii) exploring alternative sources of liquidity;
- (iv) negotiating favorable terms and conditions with lenders.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. The Company's capital management objectives, policies and processes have remained significantly unchanged during the period ended May 31, 2022 and year ended November 30, 2021.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX which requires adequate working capital or financial resources such that, in the opinion of TSX, the listed issuer will be able to continue as a going concern. TSX will consider, among other things, the listed issuer's ability to meet its obligations as they come due, as well as its working capital position, quick asset position, total assets, capitalization, cash flow and earnings as well as accountants' or auditors' disclosures in the consolidated financial statements regarding the listed issuer's ability to continue as a going concern.

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(Amounts are in Canadian dollars, unless otherwise noted) (unaudited)

19. Financial risk factors

Financial risk

The Company's activities expose it to a variety of financial risks in relation to financial instruments. The financial assets and liabilities by category are summarized in Note 20. The main types of risks are credit risk, liquidity risk and price risk.

Risk management is carried out by the Company's management team under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

(i) Credit risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash. Cash is held with a reputable Canadian chartered bank, from which management believes the risk of loss to be minimal. The Company yearly monitors the investments it makes and is satisfied with the creditworthiness of its Canadian chartered banks.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities.

The Company generates cash flow primarily from its financing activities. As at May 31, 2022, the Company had cash of \$1,735,200 (November 30, 2021 - \$4,885,811) and current liabilities of \$7,514,197 (November 30, 2021 - \$7,301,908). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity.

(iii) Price risk

Price risk is the risk that changes in market prices or market conditions will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the returns. The Company does not use derivatives to manage price risk. The Company is exposed to price risk on its long-term investment (Note 10).

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20. Categories of financial instruments

	May 31, 2022 \$	November 30, 2021 \$
Financial assets:		
Amortized cost		
Cash	1,735,200	4,885,811
Sales tax and other receivables	2,008,406	255,713
FVTPL		
Long-term investment	292,500	219,375
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities	5,364,197	4,190,377
FVTPL		
Debenture	2,150,000	3,111,531

As of May 31, 2022, and November 30, 2021, the estimated fair value of all the Company's financial instruments, approximated the carrying value due to the short-term nature of these instruments, with the exception of the long-term investment which was valued by reference to observable market prices.

Financial instruments measured 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 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). As at May 31, 2022 and November 30, 2021 the Company's long-term investment is recorded at fair value and is classified as Level 1 within the fair value hierarchy, and the convertible debenture is classified as Level 2 within the fair value hierarchy.

21. Commitments and contingencies

Milestones in acquisition of Panag

The Agreement for the acquisition of Panag contemplates the payment by the Company to the vendors of an aggregate amount of up to \$15,000,000 in cash in milestone payments upon achievement of certain operational targets associated with marketing approvals and commercialization of both human and veterinary drug products by the FDA and the European Medicines Agency ("EMA"). As of May 31, 2022, the Company has completed one of the milestones and the contingent payments of \$750,000 have been reflected in these financial statements. As for the remaining balance of \$14,250,000 payable under the conditions described above, as none of the required triggering events have taken place, the contingent payments have not been reflected in these consolidated financial statements.

The Company is committed to fund Panag's research in an amount no less than \$1,200,000 annually until 2029. If this funding commitment is not met any remaining milestone payments become due and payable immediately. As a triggering event has not yet taken place, the contingent payments have not been reflected in these consolidated financial statements.

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21. Commitments and contingencies (continued)

Legal Matters

From time to time, the Company is named as a party to claims or involved in proceedings, including legal, regulatory and tax related, in the ordinary course of its business. While the outcome of these matters may not be estimable at period end, the Company makes provisions, where possible, for the estimated outcome of such claims or proceedings. Should a loss result from the resolution of any claims or proceedings that differs from these estimates, the difference will be accounted for as a charge to net income (loss) in that period. The disclosure of further information with respect to ongoing legal matters would be reasonably expected to prejudice the position of the Company in such matters.

Contingent payments

The Company is party to certain management and employment contracts. These contracts require that additional payments of approximately \$2,053,930 be made upon termination without cause. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements.

The Company is party to several agreements for the research, development and potential commercialization of its products. Based on the closing exchange rates at May 31, 2022, the Company expects to pay up to \$10,032,567 including \$6,617,981 (USD 5,232,433) and \$22,376 (Euro 16,500). The future payments that are disclosed represent contract payments and are not discounted and are not risk adjusted. The development of any pharmaceutical product candidates is a complex and risky process that may fail at any stage in the development process due to a number of factors.

Guarantee

During the year ended November 30, 2020, the Company provided a financial guarantee in relation to a convertible debenture entered into by Lumiera Health Innovations Inc. The Company has guaranteed all of the outstanding obligations of Lumiera Health Innovations Inc. related to this convertible debenture, which includes the principal amount of \$2,000,000 plus any accrued and unpaid interest and penalties, on the occurrence of any default event. The Company can settle the outstanding obligations through cash payment or issuance of common shares at the market rate subject to regulatory approval. As at May 31, 2022 and November 30, 2021 the Company has assessed the fair value of this guarantee to be \$nil. A default by Lumiera under the debenture could have a material adverse effect on the Company if the lender was to require the Company to honour its guarantee.

22. Subsequent events

(i) Amendment to ACOA loan

Effective June 22, 2022, the Company executed an amendment to the ACOA loan whereby its monthly payments were reduced to \$1,000 per month for a period of 12 months.

(ii) Collection of scientific research and experimental development tax credits

On July 4, 2022, the Company received \$425,983 in scientific research and experimental development tax credits as was estimated during the three month period ended February 28, 2022.

(iii) Expiry of warrants

On July 12, 2022, 26,833,332 warrants, which were issued with an exercise price of \$0.40, expired.

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- (iv) \$4,500,000 participative loan from the ministère de l'Économie et de l'Innovation ("MEI")

In February 2022, the Company announced that it had agreed to a \$4,500,000 participative loan from the MEI under the BioMed Propulsion Program, managed by Investissement Québec ("IQ"). This transaction was conditional on the approval of all shareholders and will require the transfer of the Company's head office from the province of Ontario to the province of Quebec and the approval of certain financial terms. Disbursement of the IQ Loan is also conditional on numerous other closing conditions, including minimum financing conditions, the disposition of certain non-pharma assets, a no-objection letter regarding the ARDS-003 development program, the granting of security interests in favour of IQ, as well as other customary closing conditions.

In connection with the IQ Loan, on each disbursement date, the Company is obligated to grant IQ Common Share purchase warrants having a value equal to 25% of the amount so disbursed on each such disbursement date, with the number of such warrants to be calculated based on the closing trading price of the Common Shares the day preceding the request for disbursement from the Company to IQ, with each warrant entitling IQ to purchase one Common Share at a price equal to the applicable Closing Price, less a discount of 10%. The granting of such warrants requires the approval of TSX as well as approval of the shareholders of the Company, in each case pursuant to the rules of the TSX.

On May 30, 2022, the Company's shareholders approved the grant of common share purchase warrants to IQ, having an exercise price lower than market price, upon the terms and in accordance with the provisions of the offer letter from IQ dated February 4, 2022 and all as more described in the management information circular dated April 18, 2022. Additionally, the shareholders approved the amendment of the Company's articles to change the location of the Company's registered office from the Province of Ontario to the Province of Québec, at a time to be determined at the discretion of the Board of Directors. The IQ Loan is conditional upon numerous closing conditions, including certain conditions precedent for which regulatory approvals are required, and there is no guarantee such approvals will be obtained, or that the Company will be able to fulfil the conditions necessary to obtain funding of the IQ Loan, on a timely basis or at all. As at July 14, 2022, the Company had not satisfied all of the conditions required to receive the funding and has not received the related funds.