



Filament Health Corp.

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(Unaudited – Expressed in Canadian Dollars)



Filament
Health

Filament Health Corp.

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Filament Health Corp.

Condensed Interim Financial Statements - Notice to Readers
(Unaudited - Expressed in Canadian dollars)

Notice to Readers

The accompanying unaudited condensed interim consolidated financial statements of Filament Health Corp. ("Filament" or the "Company") have been prepared by and are the responsibility of the Company's management.

The financial statements do not include all the information and notes required by International Financial Reporting Standards ("IFRS") for annual financial statements and should be read in conjunction with the Company's annual financial statements and notes for the year ended December 31, 2023, which are available on SEDAR+ at www.sedarplus.ca.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants ("CICPA") for a review of interim financial statements by an entity's auditor.

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

	Notes	March 31, 2024	December 31, 2023
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 872,048	\$ 1,828,218
Receivables	15	655,668	881,468
Prepayments		108,916	22,387
		1,636,632	2,732,073
Deposits		62,984	72,902
Investment in joint venture	5	1,495,429	1,449,980
Property, plant, and equipment	6	511,634	509,656
Right-of-use asset	7	317,482	351,498
Licenses and intellectual property	8	460,000	460,000
Total assets		\$ 4,484,161	\$ 5,576,109
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	11	\$ 1,113,238	\$ 1,426,162
Lease obligation	7	163,730	159,704
		1,276,968	1,585,866
Convertible debenture	10	1,141,430	1,045,644
Deferred revenue	5	-	201,434
Long-term lease obligation	7	212,230	251,596
Total liabilities		2,630,628	3,084,540
SHAREHOLDER'S EQUITY			
Share capital	12	28,101,670	28,101,670
Share subscription receivable	12	-	(50,000)
Contributed surplus	12	5,801,852	5,650,391
Accumulated other comprehensive income (loss)	5	7,665	(60,015)
Deficit		(32,057,654)	(31,150,477)
		1,853,533	2,491,569
Total liabilities and shareholders' equity		\$ 4,484,161	\$ 5,576,109

Nature of operations and going concern (Note 1)

Commitments (Note 17)

Approved and authorized by the Board of Directors:

"Benjamin Lightburn"

Chief Executive Officer and Director

"Jonathan Conlin"

Director

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

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

			Three months ended March 31, 2024	Three months ended March 31, 2023
	Notes			
REVENUE	5, 14	\$	297,932	\$ -
EXPENSES				
Depreciation	6, 7		53,262	50,620
General and administrative			33,931	50,338
Insurance			54,597	73,808
Interest and accretion	7, 10		105,776	79,153
Professional and consulting fees	11, 12		131,017	278,888
Research and development			233,128	169,553
Sales and marketing			25,066	56,716
Transfer agent and filing fees			102,626	59,394
Travel			3,954	28,386
Wages and benefits	11, 12		440,036	392,269
			(1,183,393)	(1,239,124)
Net loss before other items			(885,461)	(1,239,124)
OTHER ITEMS				
Filament share of Magdalena loss	5		(22,231)	(41,543)
Other income (expenses)			515	26,699
Total other items			(21,716)	(14,844)
Net loss for the year			(907,177)	(1,253,968)
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange difference on translating foreign operations	5		67,680	-
Comprehensive loss for the year		\$	(839,497)	\$ (1,253,968)
Loss per share attributable to shareholders – basic and diluted		\$	(0.00)	\$ (0.01)
Weighted average number of common shares outstanding – basic and diluted			211,209,527	174,948,813

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

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

	Notes	Three months ended March 31,	
		2024	2023
			(Note 18)
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net and comprehensive loss for the year		\$ (907,177)	\$ (1,253,968)
Items not involving cash:			
Depreciation	6, 7	53,262	50,620
Deferred service revenue recognition from Magdalena	5	(38,934)	-
Filament share of Magdalena loss	5	22,231	41,543
Interest and accretion	7, 10	95,786	66,021
Professional and consulting fees	11, 12	88,012	89,338
Wages and benefits	11, 12	63,449	41,571
Changes in non-cash working capital items:			
Receivables		63,300	6,718
Prepayments and deposits		(76,611)	20,827
Accounts payable and accrued liabilities		(312,924)	173,171
		(949,606)	(764,159)
INVESTING ACTIVITIES			
Purchase of property and equipment	6	(21,224)	(12,390)
		(21,224)	(12,390)
FINANCING ACTIVITIES			
Lease payments	7	(35,340)	(27,928)
Share subscriptions received	12	50,000	-
		14,660	(27,928)
CHANGE IN CASH DURING THE YEAR		(956,170)	(804,477)
CASH, BEGINNING OF YEAR		1,828,218	2,846,740
CASH, END OF YEAR		\$ 872,048	\$ 2,042,263
Cash and cash equivalents are comprised of:			
Cash		\$ 792,374	\$ 239,263
GICs		79,674	1,803,000
		\$ 872,048	\$ 2,042,263
SUPPLEMENTAL CASH FLOW INFORMATION (Note 13)			

The accompanying notes are an integral part of these condensed interim 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, 2022	174,948,813	24,672,263	-	4,349,504	(25,828,445)	-	3,193,322
Share-based compensation	-	-	-	130,909	-	-	130,909
Vesting of RSUs issued for debt settlement	-	-	-	32,949	-	-	32,949
Net and comprehensive loss	-	-	-	-	(1,253,968)	-	(1,253,968)
Balance, March 31, 2023	174,948,813	24,672,263	-	4,513,362	(27,082,413)	-	2,103,212
Balance, December 31, 2023	211,209,527	28,101,670	(50,000)	5,650,391	(31,150,477)	(60,015)	2,491,569
Private placement	-	-	50,000	-	-	-	50,000
Share-based compensation	-	-	-	151,461	-	-	151,461
Net and comprehensive loss	-	-	-	-	(907,177)	67,680	(839,497)
Balance, March 31, 2024	211,209,527	\$ 28,101,670	\$ -	\$ 5,801,852	\$ (32,057,654)	\$ 7,665	\$ 1,853,533

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

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(Unaudited – Expressed in Canadian Dollars)

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 condensed interim 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 condensed interim 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 condensed interim 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 March 31, 2024, the Company has not yet achieved profitable operations, has negative cash flows from operations, and has an accumulated deficit of \$32,057,654 (December 31, 2023 - \$31,150,477). 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 condensed interim 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.

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(Unaudited – Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION**a. Statement of compliance**

The Company's condensed interim 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"), Interpretations Issued by the International Financial Reporting Interpretations Committee ("IFRIC"), and in accordance with International Account Standard ("IAS") 34, *Interim Financial Reporting*.

The condensed interim consolidated financial statements were authorized for issue by the Audit Committee and approved and authorized for issue by the Board of Directors on May 14, 2024.

b. Basis of measurement

The condensed interim 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 condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

c. Basis of consolidation

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

			Ownership March 31, 2024	Ownership December 31, 2023
Incorporated		Nature		
Psilo Scientific Ltd.	British Columbia	Research and development	100%	100%

The results of the wholly owned subsidiary will continue to be included in the condensed interim 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.

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(Unaudited – Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING STANDARDS AND POLICIES

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited financial statements for the year ended December 31, 2023. The accompanying unaudited condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2023.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these condensed interim 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.

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.

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(Unaudited – Expressed in Canadian Dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)***Critical accounting estimates and judgments (continued)****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 condensed interim 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.

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(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 utilize 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 March 31, 2024, the Company has an investment balance of \$1,495,429 (December 31, 2023 - \$1,449,980) after incorporating the Company's share of Magdalena losses of \$22,231 (December 31, 2023 - \$68,966) in profit or loss and a gain of \$67,680 (December 31, 2023 – loss of \$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 March 31, 2024, the Company recognized services revenue of \$38,934 (year ended December 31, 2023 - \$1,540,027).

For the three months ended March 31, 2024, the Company recognized its share of the profit and loss of Magdalena as follows:

	March 31, 2024
EXPENSES	
General and administrative	\$ 5,695
Foreign exchange on translating foreign operations	(169,200)
Professional and consulting fees	31,340
Research and development	18,542
Net income (loss) for the period	\$ 113,623
Filament share of net income (loss)	\$ 45,449
Net (loss) attributed to the Company	\$ (22,231)
Exchange difference on translating foreign operations attributed to the Company	\$ 67,680

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(Unaudited – Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of activities for the three months ended March 31, 2024:

	Lab Equipment	Computer Equipment	Furniture & Fixtures	Total
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
Additions	21,224	-	-	21,224
Cost, March 31, 2024	\$ 702,596	\$ 7,726	\$ 15,842	\$ 726,164
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
Depreciation expense	17,300	496	1,450	19,246
Accumulated depreciation, March 31, 2024	\$ 201,315	\$ 6,293	\$ 6,922	\$ 214,530
Net book value, December 31, 2023	\$ 497,357	\$ 1,929	\$ 10,370	\$ 509,656
Net book value, March 31, 2024	\$ 501,281	\$ 1,433	\$ 8,920	\$ 511,634

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 March 31, 2024, the right-of-use ("RoU") asset is calculated as follows:

Cost, December 31, 2022, 2023 and March 31, 2024	\$ 737,746
Accumulated depreciation, December 31, 2022	\$ 250,185
Depreciation expense	136,063
Accumulated depreciation, December 31, 2023	\$ 386,248
Depreciation expense	34,016
Accumulated depreciation, March 31, 2024	\$ 420,264
Net book value, December 31, 2023	\$ 351,498
Net book value, March 31, 2024	\$ 317,482

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(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 March 31, 2024, the remaining lease term is approximately 2.58 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 March 31, 2024, the lease obligation is calculated as follows:

Balance, December 31, 2022	\$	534,545
Lease payments		(171,358)
Accretion expense on lease payments		48,113
Balance, December 31, 2023		411,300
Lease payments		(45,330)
Accretion expense on lease payments		9,990
Balance, March 31, 2024	\$	375,960
Less: current portion	\$	(163,730)
Long-term lease obligation	\$	212,229

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

Maturity analysis	March 31, 2024
2024	\$ 135,991
2025	181,321
2026	105,771
Undiscounted lease obligation	423,083
Less: future interest charges	(47,123)
Discounted lease obligation	\$ 375,960
Short-term lease obligation	\$ 163,730
Long-term lease obligation	\$ 212,229

8. LICENSESLicenses

As at March 31, 2024, 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 March 31, 2024, and December 31, 2023. 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 March 31, 2024, the Company has recognized \$460,000 (December 31, 2023 - \$460,000) in licenses.

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(Unaudited – Expressed in Canadian Dollars)

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 March 31, 2024, the loan receivable balance is equal to \$Nil (December 31, 2023 - \$Nil) and the Company recognized a bad debt expense of \$Nil (December 31, 2023 - \$Nil). As at March 31, 2024, 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 (December 31, 2023 - \$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.

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(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:

		March 31, 2024
Total proceeds received for convertible debenture	\$	1,250,000
Debt component		868,056
Equity component		381,944
<u>Equity Component</u>		
Balance, December 31, 2022, 2023 and March 31, 2024	\$	190,712
<u>Debt Component</u>		
Balance, December 31, 2022	\$	719,190
Add: accretion expense		326,454
Balance, December 31, 2023		1,045,644
Add: accretion expense		95,786
Balance, March 31, 2024	\$	1,141,430
Convertible Debenture, Net book value, December 31, 2023	\$	1,045,644
Convertible Debenture, Net book value, March 31, 2024	\$	1,141,430

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(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:

	Three months ended March 31,	
	2024	2023
Management		
Wages and benefits		
Benjamin Lightburn, CEO	\$ 45,075	\$ 45,075
Warren Duncan, Former CFO	30,665	38,613
Lisa Ranken, COO	32,500	32,500
Ryan Moss, VP Research and Development	28,325	28,316
Share-based compensation		
Benjamin Lightburn, CEO	19,729	-
Warren Duncan, CFO	9,709	24,699
Lisa Ranken, COO	7,575	5,624
Ryan Moss, VP Research and Development	13,565	11,248
Total management	\$ 187,143	\$ 186,075
Board of Directors		
Share based compensation		
Greg Mills, Chairman, Former Director	-	9,670
Maureen O'Connell, Former AC Chair, Director	-	16,117
Chris Wagner, Director	7,473	16,117
Jonathan Conlin, Director	6,726	14,505
	\$ 201,342	\$ 242,484

During the three months ended March 31, 2024, the Company incurred \$25,485 (March 31, 2023 - \$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 March 31, 2024, includes \$10,805 (December 31, 2023 - \$651) owed to related parties.

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

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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 three months ended March 31, 2024:

During the three months ended March 31, 2024, the Company collected \$50,000 of subscriptions receivable related to the private placement closed on December 5, 2023.

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.

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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:

	March 31, 2024		December 31, 2023	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning	15,087,999	\$ 0.11	16,771,331	\$ 0.30
Issued	-	\$ -	12,708,332	\$ 0.10
Cancelled	-	\$ -	(10,058,332)	\$ (0.33)
Expired	(500,000)	\$ (0.30)	(4,333,332)	\$ (0.30)
Outstanding, ending	14,587,999	\$ 0.11	15,087,999	\$ 0.11

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 March 31, 2024:

Expiry Date	Weighted Average Remaining Contractual		Outstanding	Exercisable
	Life in Years	Exercise Price		
December 31, 2024	0.75	\$ 0.30	166,667	166,667
December 22, 2030	6.73	\$ 0.05	1,433,000	1,164,313
March 2, 2031	6.92	\$ 0.30	330,000	330,000
March 31, 2033	9.01	\$ 0.10	10,158,332	4,591,036
March 31, 2033	9.01	\$ 0.16	500,000	166,667
June 30, 2033	9.25	\$ 0.10	2,000,000	500,000
	8.67	\$ 0.11	15,087,999	6,918,683

For the three months ended March 31, 2024, the Company incurred \$151,461 (December 31, 2023 - \$1,120,887) 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, \$50,578 (December 31, 2023 - \$343,372) was issued to key management whose fees are included in wages and benefits, \$37,434 (December 31, 2023 - \$Nil) was issued to employees whose fees are included in wages and benefits, \$14,199 (December 31, 2023 - \$428,538) was issued to the Board of Directors whose fees are included in professional and consulting fees, and \$49,250 (December 31, 2023 - \$348,977) was issued to consultants of the company whose fees are included in professional and consulting fees.

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12. CAPITAL STOCK AND RESERVES (continued)**c) Employee Stock Option Plan (continued)**

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:

	March 31, 2024	December 31, 2023
Risk-free interest rate	-	3.17%
Expected option life in years	-	10 years
Expected share price volatility*	-	108%
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.

d) Warrants

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

	March 31, 2024		December 31, 2023	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning	51,727,112	\$ 0.19	26,199,333	\$ 0.38
Issued	-	\$ -	33,777,779	\$ 0.13
Cancelled	-	\$ -	(2,000,000)	\$ (0.40)
Expired	-	\$ -	(6,250,000)	\$ (0.60)
Outstanding, ending	51,727,112	\$ 0.19	51,727,112	\$ 0.19

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 March 31, 2024:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding	Exercisable
July 30, 2025	1.33	\$ 0.30	17,949,333	17,949,333
July 24, 2026	2.32	\$ 0.117	27,777,781	27,777,781
December 5, 2026	2.68	\$ 0.20	5,999,998	5,999,998
	2.02	\$ 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.

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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.

e) Financing Warrants

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

	March 31, 2024		December 31, 2023	
	Number of Financing Warrants	Weighted Average Exercise Price	Number of Financing Warrants	Weighted Average Exercise Price
Outstanding, beginning	-	\$ -	991,360	\$ 0.33
Expired	-	\$ -	(991,360)	\$ (0.33)
Outstanding, ending	-	\$ -	-	\$ -

f) Restricted Stock Units

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

	March 31, 2024	December 31, 2023
Balance, beginning	3,931,900	2,640,500
Issued	-	3,869,343
Cancelled	-	(95,000)
Converted to common shares	-	(2,482,943)
Balance, ending	3,931,900	3,931,900

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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 \$11,464 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 \$85,850 and the Company has recognized \$30,136 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 \$25,500 and the Company has recognized \$21,382 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 \$31,125 and the Company has recognized \$18,024 based on the vesting of the RSUs since the grant date.

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13. SUPPLEMENTAL CASH FLOW INFORMATION

	March 31, 2024	March 31, 2023
Interest paid	\$ 9,990	\$ 13,132
Income tax paid	\$ -	\$ -
Non-cash financing and investing activities		
Fair value of RSUs vested	\$ -	\$ 32,949

14. REVENUE AND OPERATING SEGMENTS

As at March 31, 2024, and December 31, 2023, the Company is operating its business in one reportable segment: licensing. All non-current assets are located in Canada. During the three months ended March 31, 2024, the Company had revenues of \$297,932 (December 31, 2023 - \$2,130,974) in Canada. The Company recognized revenue as follows:

	For the three months ended March 31, 2023	For the year ended December 31, 2023
Licensing revenue	\$ 256,498	\$ 381,447
Analytical revenue	\$ 2,500	\$ 209,500
Services revenue from joint venture	\$ 38,934	\$ 1,540,027
	\$ 297,932	\$ 2,130,974

Major customers are defined as customers that each individually account for greater than 10% of the Company's revenues. For the three months ended March 31, 2024 and year ended December 31, 2023, the following revenue was recorded from major customers comprising 89% (December 31, 2023 – 99%) of gross revenues:

	For the three months ended March 31, 2024	For the year ended December 31, 2023
Customer A	\$ 225,000	\$ -
Customer B	\$ 2,500	\$ 209,500
Customer C	\$ -	\$ 369,361
Customer D	\$ 38,934	\$ 1,540,027

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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 March 31, 2024	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 872,048	-	-	\$ 872,048

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

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 March 31, 2024, \$25,000 (December 31, 2023 - \$25,000) of trade receivables are past due; however, management expects to be able to collect these amounts outstanding.

Filament Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements

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15. FINANCIAL INSTRUMENTS (continued)*Credit risk (continued)*

As at March 31, 2024, receivables are comprised of \$324,510 (December 31, 2023 - \$587,263) in trade receivables and the remainder arise from taxes receivable. The Company's aging of receivables is below:

	March 31, 2024	December 31, 2023
0 – 30 days	\$ 96,586	\$ 283,675
91+ days	227,924	303,588
Total trade receivables	\$ 324,510	\$ 587,263

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 March 31, 2024, the Company has a working capital of \$359,664.

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 March 31, 2024, 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 three months ended March 31, 2024. 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 March 31, 2024, 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 \$325,742 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 \$406,992 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.

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18. 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.