

**SMALL PHARMA INC.**

(formerly, Unilock Capital Corp.)

Interim Condensed Consolidated Financial Statements

Three and nine months ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

**SMALL PHARMA INC.**  
(formerly, Unilock Capital Corp.)

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**SMALL PHARMA INC.**

(formerly, Unilock Capital Corp.)

Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	November 30, 2022 \$	February 28, 2022 \$
<b>ASSETS</b>		
Current assets		
Cash	22,744,288	40,656,069
Trade and other receivables	844,275	1,213,906
Prepaid expenses (Note 7)	1,378,094	1,142,118
<b>Total current assets</b>	<b>24,966,657</b>	<b>43,012,093</b>
Non-current assets		
Property and equipment	55,068	61,789
Restricted cash (Note 4)	–	2,500,000
<b>Total non-current assets</b>	<b>55,068</b>	<b>2,561,789</b>
<b>Total assets</b>	<b>25,021,725</b>	<b>45,573,882</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	6,080,219	4,497,271
<b>Total liabilities</b>	<b>6,080,219</b>	<b>4,497,271</b>
Shareholders' equity (deficit)		
Share capital (Note 8)	69,722,807	69,970,184
Share-based payment reserve (Note 9 & 10)	3,940,930	3,009,042
Accumulated other comprehensive loss	(2,454,245)	(193,657)
Deficit	(52,267,986)	(31,708,958)
<b>Total shareholders' equity (deficit)</b>	<b>18,941,506</b>	<b>41,076,611</b>
<b>Total liabilities and shareholders' equity (deficit)</b>	<b>25,021,725</b>	<b>45,573,882</b>

Commitments (Note 12)

Subsequent events (Note 14)

Approved and authorized for issuance on behalf of the Board of Directors on January 24, 2023:

/s/ Michael Wolfe  
Michael Wolfe, Director

/s/ George Tziras  
George Tziras, Director

# SMALL PHARMA INC.

(formerly, Unilock Capital Corp.)

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars)

	Three months ended November 30, 2022	Three months ended November 30, 2021	Nine months ended November 30, 2022	Nine months ended November 30, 2021
	\$	\$	\$	\$
Revenue	—	—	—	—
Expenses				
Investor and public relations	230,386	929,563	906,060	1,750,787
Consulting fees	100,851	—	565,463	72,042
Depreciation	5,737	5,221	17,084	15,083
Directors' fees	80,500	65,509	262,603	135,472
Foreign exchange loss	28,134	15,137	38,552	175,601
Office and miscellaneous	247,514	95,411	578,236	211,494
Professional fees	407,998	515,045	1,940,756	1,722,778
Occupancy costs	49,192	38,285	147,688	115,534
Research and development	3,623,563	1,056,104	8,481,292	3,304,938
Salaries and benefits (Note 7)	2,091,308	1,751,681	6,372,056	4,484,087
Share-based payment expense (Note 10)	269,401	158,564	1,012,329	582,392
Transfer agent and filing fees	24,403	—	152,262	86,285
Total expenses	7,158,987	4,630,520	20,474,381	12,656,493
Loss before other items	(7,158,987)	(4,630,520)	(20,474,381)	(12,656,493)
Other items				
Accretion discounts on notes payable (Note 5)	—	—	—	(373,344)
Loss on change in fair value of derivative liabilities (Note 6)	—	—	—	(1,933,447)
Interest income (expense) (Note 5)	2,564	—	10,709	(93,105)
Listing costs (Note 3)	—	—	—	(2,419,736)
Total other items	2,564	—	10,709	(4,819,632)
Net loss for the period before income taxes	(7,156,423)	(4,630,520)	(20,463,672)	(17,476,125)
Income tax expense	—	—	—	—
Net loss for the period	(7,156,423)	(4,630,520)	(20,463,672)	(17,476,125)
Other comprehensive income (loss)				
Foreign currency translation gain (loss)	1,061,593	(1,026,689)	(2,260,588)	(81,139)
Comprehensive loss for the period	(6,094,830)	(5,657,209)	(22,724,260)	(17,557,264)
Net loss per share, basic and diluted (Note 8 (e))	(0.02)	(0.02)	(0.06)	(0.06)
Weighted average shares outstanding (Note 8 (e))	321,805,646	317,800,487	321,439,952	309,298,205

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

**SMALL PHARMA INC.**

(formerly, Unilock Capital Corp.)

Interim Condensed Consolidated Statements of Changes in Equity (Deficit)

(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' equity (deficit) \$
	Number of shares*	Amount \$				
Balance, March 1, 2022	319,625,487	69,970,184	3,009,042	(193,657)	(31,708,958)	41,076,611
Shares issued pursuant to exercise of stock options	3,725,000	140,307	(80,441)	–	–	59,866
Purchase of shares through normal course issuer bid for cancellation (Note 8 (b))	(1,788,000)	(387,684)	–	–	(95,356)	(483,040)
Fair value of stock options granted	–	–	1,012,329	–	–	1,012,329
Foreign currency translation loss	–	–	–	(2,260,588)	–	(2,260,588)
Net loss for the period	–	–	–	–	(20,463,672)	(20,463,672)
Balance, November 30, 2022*	321,562,487	69,722,807	3,940,930	(2,454,245)	(52,267,986)	18,941,506

\* The total number of common shares outstanding at November 30, 2022 was 321,674,987, representing 321,562,487 common shares held by shareholders and 112,500 common shares held by the Company awaiting cancellation. 112,500 common shares purchased through the normal course issuer bid during the period ended November 30, 2022, were cancelled on December 8, 2022 (refer to Notes 8 (a), (b) and (c)).

**SMALL PHARMA INC.**

(formerly, Unilock Capital Corp.)

Interim Condensed Consolidated Statements of Changes in Equity (Deficit)

(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' equity (deficit) \$
	Number of shares	Amount \$				
Balance, February 28, 2021	228,621,500	3,244,312	609,564	(180,684)	(9,443,274)	(5,770,082)
Shares issued pursuant to exercise of stock options	13,296,400	389,649	(329,459)	–	–	60,190
Shares issued for conversion of notes payable and accrued interest and settlement of derivative liabilities	14,161,576	13,188,591	–	–	–	13,188,591
Shares of the Company pursuant to closing of the Qualifying Transaction (Note 3)	1,304,344	1,252,170	–	–	–	1,252,170
Shares issued for cash	60,416,667	58,000,000	–	–	–	58,000,000
Share issuance costs	–	(4,247,910)	–	–	–	(4,247,910)
Fair value of brokers' warrants issued	–	(1,977,735)	1,977,735	–	–	–
Revaluation of stock options upon closing of the Qualifying Transaction	–	–	90,018	–	–	90,018
Fair value of stock options granted	–	–	582,392	–	–	582,392
Foreign currency translation loss	–	–	–	(81,139)	–	(81,139)
Net loss for the period	–	–	–	–	(17,476,125)	(17,476,125)
Balance, November 30, 2021	317,800,487	69,849,077	2,930,250	(261,823)	(26,919,399)	45,598,105

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

# SMALL PHARMA INC.

(formerly, Unilock Capital Corp.)

Interim Condensed Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	Nine months ended November 30, 2022 \$	Nine months ended November 30, 2021 \$
<b>Operating activities</b>		
Net loss for the period	(20,463,672)	(17,476,125)
Items not involving cash:		
Interest expense accrued	—	93,105
Depreciation	17,084	15,083
Foreign exchange loss	38,552	175,601
Share-based payment expense (Note 10)	1,012,329	582,392
Listing costs (Note 3)	—	1,210,013
Loss on change in fair value of derivative liabilities (Note 6)	—	1,933,447
Accretion of discounts on notes payable (Note 5)	—	373,344
Changes in non-cash operating working capital:		
Trade and other receivables	287,356	86,972
Prepaid expenses	(290,995)	223,769
Accounts payable and accrued liabilities	1,738,930	1,665,829
<b>Net cash used in operating activities</b>	<b>(17,660,416)</b>	<b>(11,116,570)</b>
<b>Investing activities</b>		
Restricted cash (Note 4)	2,500,000	(2,500,000)
Cash acquired in reverse acquisition (Note 3)	—	109,146
Acquisition of property and equipment	(13,469)	(8,444)
<b>Net cash provided by (used in) investing activities</b>	<b>2,486,531</b>	<b>(2,399,298)</b>
<b>Financing activities</b>		
Net proceeds from issuance of common shares, after issue costs	—	53,752,090
Purchase of shares through normal course issuer bid for cancellation (Note 8 (b))	(483,040)	—
Proceeds from exercise of stock options (Note 8 (c))	59,866	60,190
<b>Net cash (used in) provided by financing activities</b>	<b>(423,174)</b>	<b>53,812,280</b>
<b>Effect of exchange rate changes on cash</b>	<b>(2,314,722)</b>	<b>(450,836)</b>
<b>Change in cash</b>	<b>(17,911,781)</b>	<b>39,845,576</b>
<b>Cash, beginning of period</b>	<b>40,656,069</b>	<b>5,777,957</b>
<b>Cash, end of period</b>	<b>22,744,288</b>	<b>45,623,533</b>
<b>Non-cash investing and financing activities:</b>		
Prepaid expenses acquired in reverse acquisition (Note 3)	—	38,533
Accounts payable and accrued liabilities assumed in reverse acquisition (Note 3)	—	15,504
Shares issued for conversion of notes payable and accrued interest (Notes 5 & 6)	—	13,188,591

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

# **SMALL PHARMA INC.**

(formerly, Unilock Capital Corp.)

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended November 30, 2022 and 2021

(Expressed in Canadian dollars)

## **1. Nature of Operations and Continuance of Business**

Small Pharma Inc. (formerly, Unilock Capital Corp.) (the “Company” or “Small Pharma Inc.”) was incorporated under the *Business Corporations Act* (British Columbia) (the “BCBCA”) on January 23, 2018. Small Pharma Inc is a biotechnology company focused on developing short-duration psychedelic-assisted therapies for the treatment of mental health conditions. The Company’s head office is located at 6-8 Bonhill Street, 3<sup>rd</sup> Floor, London, UK.

Effective April 29, 2021, the Company completed its acquisition of all of the issued outstanding ordinary shares of Small Pharma Ltd which constituted the Company’s qualifying transaction under TSX Venture Exchange (“TSXV”) Policy 2.4 – *Capital Pool Companies*. This transaction constituted a reverse acquisition of the Company by Small Pharma Ltd, with Small Pharma Ltd being identified as the accounting acquirer. As a result, these interim condensed consolidated financial statements are a continuation of Small Pharma Ltd. The Company’s results of operations are included from April 29, 2021, onwards, except for capital which has been retroactively adjusted to reflect the capital of the Company. Refer to Note 3.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The impact on the Company has not been significant, but management continues to monitor the situation.

## **2. Significant Accounting Policies**

### **(a) Statement of Compliance**

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to interim financial information, as outlined in International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” and using the accounting policies consistent with those in the audited consolidated financial statements as at and for the year ended February 28, 2022.

These interim condensed consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the annual consolidated financial statements as at and for the year ended February 28, 2022. Interim results are not necessarily indicative of the results expected for the fiscal year.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on January 24, 2023.

These interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, including Small Pharma Ltd, a company incorporated in the UK on February 4, 2015, Small Pharma (US) Inc., a company incorporated in the State of Delaware, USA on July 5, 2022 that does not currently have significant assets and is not currently conducting active business operations and an amalgamated entity (“Amalco”) between 1292589 B.C. Ltd. (“Subco”) and Small Pharma Financing Inc. (“Finco”) until Amalco’s dissolution on October 7, 2021. Refer to Note 3.

Subsidiaries are those entities over which the Company has control. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the interim condensed consolidated financial statements from the date control commences until the date that control ceases.

All intercompany transactions have been eliminated on consolidation.

### **(b) Basis of Presentation**

These interim condensed consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and equity instruments which are measured at fair value. All monetary references expressed in these notes are in Canadian dollars unless otherwise indicated.

## **SMALL PHARMA INC.**

(formerly, Unilock Capital Corp.)

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended November 30, 2022 and 2021

(Expressed in Canadian dollars)

### **3. Acquisition of Small Pharma Ltd on April 29, 2021**

The Company, certain shareholders of the Company, and Small Pharma Ltd entered into an agreement on November 30, 2020, as amended on February 23, 2021, pursuant to which the Company agreed to acquire all the issued and outstanding ordinary shares of Small Pharma Ltd (the "Qualifying Transaction").

On March 9, 2021, Finco issued 60,416,667 subscription receipts for gross proceeds of \$58,000,000 (Note 8 (d)). The subscription receipts were converted into Finco shares on the basis of one Finco share for each subscription receipt. Concurrently upon completion of the Qualifying Transaction, the Company (formerly Unilock Capital Corp.), Subco and Finco completed a three-cornered amalgamation, pursuant to which all Finco shareholders exchanged Finco shares for the Company's shares on a one-for-one basis, and Finco and Subco amalgamated into Amalco, a subsidiary of the Company. On October 7, 2021, Amalco was wound-up and dissolved under the BCBCA, pursuant to which all of the assets of Amalco were distributed to the Company.

The closing of the Qualifying Transaction occurred on April 29, 2021, at which time the Company issued 255,079,477 common shares in exchange for all of the issued and outstanding ordinary shares of Small Pharma Ltd. Small Pharma Ltd effected a share split of its ordinary shares on a 1:100 basis immediately prior to the closing of the Qualifying Transaction. All share amounts have been retroactively restated for all periods presented. The Company consolidated its common shares on a 4.6:1 basis immediately prior to the closing of the Qualifying Transaction.

As a result of the completion of the Qualifying Transaction, the former shareholders of Small Pharma Ltd acquired 81% of the outstanding common shares of the Company, and, for accounting purposes, are considered to have acquired control of the Company. Accordingly, the Qualifying Transaction constitutes a reverse acquisition of the Company by Small Pharma Ltd and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, *Share-based Payment*, and IFRS 3, *Business Combinations*. As the Company did not qualify as a business prior to the closing of the Qualifying Transaction according to the definition in IFRS 3, this reverse acquisition did not constitute a business combination; rather it was treated as an issuance of shares by Small Pharma Ltd for the net assets of the Company. Accordingly, no goodwill was recorded with respect to the transaction.

The transaction was measured at the fair value of the common shares that Small Pharma Ltd would have had to issue to the shareholders of the Company, being 1,304,344 common shares with a fair value of \$1,252,170, and the fair value of 130,433 stock options of the Company with a fair value of \$90,018, to give the shareholders of the Company the same percentage of equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of Small Pharma Ltd acquiring the Company.

## **SMALL PHARMA INC.**

(formerly, Unilock Capital Corp.)

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended November 30, 2022 and 2021

(Expressed in Canadian dollars)

### **3. Acquisition of Small Pharma Ltd on April 29, 2021 (continued)**

The fair value of common shares and stock options issued are estimated based on the financing event which took place concurrently to the reverse takeover transaction at the price of \$0.96 per common share (Note 8 (d)). These interim condensed consolidated financial statements include the accounts of the Company as at April 29, 2021 and the historical accounts of the business of Small Pharma Ltd since its incorporation on February 4, 2015.

The purchase price was allocated as follows:

	\$
Fair value of Small Pharma Inc. shares (1,304,344 common shares)	1,252,170
Fair value of 130,433 stock options of the Company outstanding	90,018
<b>Total consideration</b>	<b>1,342,188</b>
Less: fair value of identifiable assets and liabilities acquired:	
Cash	109,146
Prepaid expenses	38,533
Accounts payable and accrued liabilities	(15,504)
<b>Net assets</b>	<b>132,175</b>
<b>Listing costs</b>	<b>1,210,013</b>

Refer to Note 8 (d) for details of the concurrent subscription receipt financing in connection with the reverse acquisition.

The fair value of stock options of Small Pharma Inc. was calculated using the Black-Scholes option pricing model with the following assumptions: volatility of 100%, expected life of 2.5 years, no dividends, and a risk-free rate of 0.44%.

Included in listing costs for the nine months ended November 30, 2021 is \$1,209,723 in connection with certain tax expenditures incurred as part of the Qualifying Transaction.

## SMALL PHARMA INC.

(formerly, Unilock Capital Corp.)

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended November 30, 2022 and 2021

(Expressed in Canadian dollars)

### 4. Restricted Cash

Following completion of the Qualifying Transaction, the Company had long-term restricted cash of \$2,500,000 in relation to a trust arrangement with a third-party trustee to cover indemnity claims available under applicable law to the directors and officers of the Company. On August 1, 2022 an insurance policy was taken out by the Company to cover such claims and as a result, on August 29, 2022 the Company terminated the trust arrangement and the restricted cash was released back into unrestricted cash.

### 5. Notes Payable

During the year ended February 28, 2021, the Company issued two tranches of convertible notes payable bearing interest at 6% per annum and expiring on July 1, 2021. The conversion feature, upon triggering of certain events, converted the notes payable into the Company's common shares at 20% discount to relevant fund-raising share price. As a result, the number of common shares of the Company to be issued upon conversion was variable. Therefore, during the nine months ended November 30, 2021, notes payable were classified as a derivative liability in accordance with IAS 32, *Financial Instruments: Presentation*.

On March 8, 2021, the Company modified the conversion price of certain convertible notes payable in the amount of £2,597,512 from a 20% discount to relevant fund-raising share price to a 36% discount.

On April 29, 2021, the Company completed a reverse takeover transaction and concurrent financing event. As a result, the carrying value of the convertible notes payable in the amount of \$9,056,561, and the fair value of the derivative liabilities on April 29, 2021 in the amount of \$3,850,458, together with accrued interest payable of \$281,572, were converted into common shares of the Company. Therefore, the share capital was increased by the respective amount. Refer to Note 8(d).

	\$
Carrying value, February 28, 2021	8,826,946
Accretion of discount	373,344
Foreign exchange loss	122,066
Foreign currency translation gain	(265,795)
Amount transferred to share capital upon conversion	(9,056,561)
Carrying value, November 30, 2021 and November 30, 2022	—

- (a) As at February 28, 2021, the Company had convertible notes payable of \$5,000,000. The notes bore interest at 6% per annum and were to mature on July 1, 2021. The notes payable and accrued interest were converted to ordinary shares of Small Pharma Ltd at \$0.768 per share on April 29, 2021. Refer to Note 8 (d).
- (b) As at February 28, 2021, the Company had convertible notes payable of \$4,607,207 (£2,597,512). The notes bore interest at 6% per annum and were to mature on July 1, 2021. The notes payable and accrued interest were converted to ordinary shares of Small Pharma Ltd at approximately \$0.61 (£0.36) per share on April 29, 2021. Refer to Note 8 (d).
- (c) As at November 30, 2022, the accrued interest payable was \$nil (February 28, 2022 - \$nil). For the nine months ended November 30 2022 the Company incurred interest expense of \$nil (November 30, 2021 - \$93,105 (£54,030)). For the three months ended November 30, 2022 the Company incurred interest expense of \$nil (November 30, 2021 - \$nil).

## SMALL PHARMA INC.

(formerly, Unilock Capital Corp.)

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended November 30, 2022 and 2021

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### 6. Derivative Liabilities

As the conversion price of the notes payable varied depending on certain factors, the Company recorded embedded derivative liabilities in its interim condensed consolidated statement of financial position with a corresponding discount which is netted against the principal amount of the convertible notes payable. The Company accretes the discount associated with the embedded derivative liabilities to accretion expense over the term of the convertible notes payable using effective interest rates between 15% and 23%. The embedded derivative liabilities are initially measured at fair value and re-measured at the end of each reporting period with any changes in fair value reported in the interim condensed consolidated statements of operations and comprehensive loss.

	\$
Balance, February 28, 2021	1,958,406
Change in fair value resulting from loan modification	1,225,362
Change in fair value as of conversion date	708,085
Foreign exchange gain	32,949
Foreign currency translation adjustment	(74,344)
Amount transferred to share capital upon conversion	(3,850,458)
<b>Balance, November 30, 2021 and November 30, 2022</b>	<b>—</b>

In relation to the modification of the conversion price from a 20% discount to the relevant fund-raising share price to a 36% discount, the Company remeasured the fair value of derivative liabilities and recognized a loss in change in fair value of derivative liabilities in the amount of \$1,225,362 on March 8, 2021.

The fair value of derivative liabilities as at the date of conversion (April 29, 2021) was calculated using an estimated share price which is based on a probability weighted scenario approach, whereby the probability of conversion of the notes payable is 100% and the probability of the notes payable being held to maturity is 0%. The calculation utilized an estimated discount rate from 0% to 1%.

### 7. Related Party Transactions

The key management personnel of the Company are considered to be the directors of the Company and those other members of senior management who are directly involved in strategic decision-making.

The Company incurred salaries and benefits to key management personnel as follows:

	Three months ended November 30, 2022	Three months ended November 30, 2021	Nine months ended November 30, 2022	Nine months ended November 30, 2021
	\$	\$	\$	\$
Base compensation and bonuses	1,245,664	1,203,210	3,908,666	2,976,179
Pension benefits	21,393	15,372	70,470	50,265
Share-based payments	179,083	156,820	733,424	536,224
<b>Total</b>	<b>1,446,140</b>	<b>1,375,402</b>	<b>4,712,560</b>	<b>3,562,668</b>

## SMALL PHARMA INC.

(formerly, Unilock Capital Corp.)

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended November 30, 2022 and 2021

(Expressed in Canadian dollars)

### 7. Related Party Transactions (continued)

At November 30, 2022, amounts owed by the Company to related parties in relation to directors' fees of \$22,169 (February 28, 2022 - \$73,929) as well as key management compensation and bonuses of \$1,167,826 (February 28, 2022 - \$2,217,543) were included in accounts payable and accrued liabilities. At November 30, 2022, \$759,047 (February 28, 2022 - \$nil) in key management compensation was included in prepaid expenses. This amount reflects a retention payment to an officer of the Company which may be subject to clawback in whole or in part pursuant to the terms and conditions of such officer's retention agreement. The amount included in prepaid expenses will be amortized into salaries and benefits over the course of the agreement, which concludes on March 1, 2024.

### 8. Share Capital

**Authorized:** Unlimited number of common shares without par value.

#### (a) Share capital continuity:

	Number of shares	\$
Balance, February 28, 2021	228,621,500	3,244,312
Shares issued pursuant to exercise of stock options	15,121,400	463,464
Shares issued for conversion of notes payable and accrued interest and settlement of derivative liabilities	14,161,576	13,188,591
Shares of the Company pursuant to closing of the Qualifying Transaction (Note 3)	1,304,344	1,252,170
Shares issued for cash	60,416,667	58,000,000
Share issuance costs	—	(4,200,618)
Fair value of brokers' warrants issued	—	(1,977,735)
Balance, February 28, 2022	319,625,487	69,970,184
Shares issued pursuant to exercise of stock options	3,725,000	140,307
Purchase and cancellation of shares through normal course issuer bid	(1,675,500)	(363,290)
Total shares outstanding, November 30, 2022*	321,674,987	69,747,201
Purchase of shares through normal course issuer bid for cancellation	(112,500)	(24,394)
Balance, November 30, 2022	321,562,487	69,722,807

\* The total number of common shares outstanding at November 30, 2022 was 321,674,987, representing 321,562,487 common shares held by shareholders and 112,500 common shares held by the Company awaiting cancellation. 112,500 shares purchased through the normal course issuer bid (the "NCIB") during the period ended November 30, 2022 were cancelled on December 8, 2022 (refer to Note 8 (c)).

## **SMALL PHARMA INC.**

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Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended November 30, 2022 and 2021

(Expressed in Canadian dollars)

### **8. Share Capital (continued)**

#### **(b) Normal course issuer bid program**

On August 18, 2022, the TSXV accepted the Company's notice of intention to establish a NCIB. The NCIB permits the purchase for cancellation of up to 5,000,000 of the Company's common shares, over a 12 month period, representing 1.55% of the Company's issued and outstanding shares on the date of announcement.

The NCIB commenced on August 19, 2022 and will terminate by the earlier of: August 18, 2023 and the date the Company has acquired the maximum number of common shares under the NCIB. The Company may also, at its discretion, terminate the NCIB prior to such date. The price paid for any common shares purchased under the NCIB will be the market price of such shares at the time of the applicable purchases.

On September 13, 2022 the Company entered into an automatic share purchase plan (the "ASPP") with its designated broker allowing the purchases of common shares for cancellation under its NCIB program. The ASPP was terminated on October 26, 2022 in accordance with its terms.

During the nine months ended November 30, 2022, the Company purchased 1,788,000 common shares at a weighted average price of \$0.270 per share, net of commission costs, for a total amount of \$483,040. As at November 30, 2022, 112,500 common shares repurchased under the NCIB were held in treasury for the purpose of cancellation and were subsequently cancelled on December 8, 2022. The Company intends to cancel all future purchases of common shares under the NCIB within eight days following the month in which such purchases occurred.

#### **(c) Movements in issued share capital in the current period:**

- On April 14, 2022, the Company issued 912,500 common shares for proceeds of \$15,156 pursuant to the exercise of stock options. The fair value of stock options exercised of \$20,504 was transferred from share-based payment reserve to share capital.
- On June 15, 2022, the Company issued 1,050,000 common shares for proceeds of \$16,574 pursuant to the exercise of stock options. The fair value of stock options exercised of \$22,389 was transferred from share-based payment reserve to share capital.
- On June 21, 2022, the Company issued 912,500 common shares for proceeds of \$14,628 pursuant to the exercise of stock options. The fair value of stock options exercised of \$19,795 was transferred from share-based payment reserve to share capital.
- On July 26, 2022, the Company issued 850,000 common shares for proceeds of \$13,508 pursuant to the exercise of stock options. The fair value of stock options exercised of \$17,753 was transferred from share-based payment reserve to share capital.
- Pursuant to the NCIB (note 8 (b) above), from August 19, 2022 to November 30, 2022 the Company purchased for cancellation 1,788,000 common shares for a total cost of \$483,040. 1,675,500 common shares were cancelled during the period to November 30, 2022. The remaining 112,500 common shares were cancelled subsequent to the period end on December 8, 2022.

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### **8. Share Capital (continued)**

#### **(d) Movements in issued share capital in the prior year:**

- On March 9, 2021, the Company together with Small Pharma Ltd and Finco, entered into an agency agreement with Canaccord Genuity Corp. Eight Capital, and Haywood Securities Inc. (collectively, the “Agents”). On March 9, 2021, pursuant to the agency agreement, Finco completed a brokered private placement of 60,416,667 subscription receipts at a price of \$0.96 per subscription receipt for gross proceeds of \$58,000,000 (Note 3). Each subscription receipt was exchanged into common shares of the Company on the basis of one subscription receipt for one common share of the Company. In connection with the subscription receipt financing noted above, the Company incurred share issuance costs of \$4,200,618. The Company also issued 3,947,547 compensation warrants with a fair value of \$1,977,735 to the Agents. The fair value of compensation warrants was calculated using the Black-Scholes option pricing model with the following assumptions: volatility of 100%, expected life of 2 years, no dividends, and a risk-free rate of 0.29%.
- On April 23, 2021, Small Pharma Ltd issued 12,296,400 ordinary shares for proceeds of \$42,690 pursuant to the exercise of stock options. The fair value of stock options exercised of \$305,223 was transferred from share-based payment reserve to share capital.
- On April 29, 2021, Small Pharma Ltd issued 14,161,576 ordinary shares for the conversion of notes payable of \$9,056,561 and accrued interest payable of \$281,572, and settlement of derivative liabilities of \$3,850,458. Refer to Notes 5 and 6.
- On April 29, 2021, the Company closed the Qualifying Transaction, resulting in a reverse acquisition (refer to Note 3). The Qualifying Transaction was measured at the fair value of the ordinary shares that Small Pharma Ltd would have had to issue to the shareholders of the Company, being 1,304,344 common shares with a fair value of \$1,252,170.
- On July 20, 2021, the Company issued 1,000,000 common shares for proceeds of \$17,500 pursuant to the exercise of stock options. The fair value of stock options exercised of \$24,236 was transferred from share-based payment reserve to share capital.
- On January 18, 2022, the Company issued 1,825,000 common shares for proceeds of \$31,154 pursuant to the exercise of stock options. The fair value of stock options exercised of \$42,661 was transferred from share-based payment reserve to share capital.

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### 8. Share Capital (continued)

#### (e) Loss per share

The calculation of basic and diluted loss per share is based on the following losses and number of common shares:

	Three months ended November 30, 2022	Three months ended November 30, 2021	Nine months ended November 30, 2022	Nine months ended November 30, 2021
Net loss for the period	<u><u>\$7,156,423</u></u>	<u><u>\$4,630,520</u></u>	<u><u>\$(20,463,672)</u></u>	<u><u>\$(17,476,125)</u></u>
Weighted average number of shares outstanding – basic and diluted	321,805,646	317,800,487	321,439,952	309,298,205
Loss per share – basic and diluted	<u><u><u><u>\$0.02</u></u></u></u>	<u><u><u><u>\$0.02</u></u></u></u>	<u><u><u><u>\$0.06</u></u></u></u>	<u><u><u><u>\$0.06</u></u></u></u>

The diluted weighted average number of shares does not take into account the effects of stock options and warrants outstanding as they would be anti-dilutive for all periods above.

#### (f) Restrictions on shares

Following completion of the Qualifying Transaction, at February 28, 2022 140,426,893 common shares and 11,384,127 stock options were held in escrow or subject to a contractual restriction on transfer. On November 4, 2022 all remaining common shares and options under restrictions were released from escrow. As a result, at November 30, 2022 no common shares or options were subject to escrow or contractual restrictions on transfer.

### 9. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of warrants	Weighted average exercise price \$
Balance, February 28, 2021	–	–
Issued (Note 8 (d))	3,947,547	0.96
Balance, November 30, 2021 and November 30, 2022	3,947,547	0.96

As at November 30, 2022, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price \$	Expiry date	Weighted average remaining life
3,947,547	0.96	April 29, 2023	0.4 years

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### 10. Stock Options

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price \$
Outstanding, February 28, 2021	30,897,800	0.01
Granted	4,045,000	0.33
Exercised	(15,121,400)	0.01
Cancellation to be regranted	(850,000)	0.49
Regranting of cancelled options	850,000	0.49
Small Pharma Inc.'s outstanding stock options prior to reverse acquisition	130,433	0.46
<b>Outstanding, February 28, 2022</b>	<b>19,951,833</b>	<b>0.08</b>
Granted	7,300,000	0.17
Exercised	(3,725,000)	0.02
Expired	(130,433)	0.46
<b>Outstanding, November 30, 2022</b>	<b>23,396,400</b>	<b>0.12</b>

Additional information regarding stock options outstanding as at November 30, 2022 is as follows:

Range of exercise prices \$	Outstanding			Vested	Non-vested
	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of options outstanding	Number of options outstanding
0.0175	9,160,100	8.1	0.0175	9,160,100	—
0.0035	2,891,300	7.4	0.0035	2,891,300	—
0.49	1,090,000	8.7	0.49	1,090,000	—
0.40	150,000	8.7	0.40	150,000	—
0.435	30,000	9.0	0.435	30,000	—
0.245	1,700,000	9.2	0.245	—	1,700,000
0.30	1,075,000	9.3	0.30	—	1,075,000
0.175	6,300,000	9.5	0.175	4,725,000	1,575,000
0.105	1,000,000	9.6	0.105	500,000	500,000
	23,396,400	8.6	0.12	18,546,400	4,850,000

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## 10. Stock Options (continued)

Additional information regarding stock options outstanding as at February 28, 2022 is as follows:

Range of exercise prices \$	Number of options outstanding	Outstanding		Number of options outstanding	Number of options outstanding
		Weighted average remaining contractual life (years)	Weighted average exercise price \$		
0.0175	12,885,100	7.6	0.0175	12,885,100	—
0.0035	2,891,300	8.1	0.0035	2,891,300	—
0.46	130,433	0.2	0.46	130,433	—
0.49	1,090,000	9.4	0.49	1,090,000	—
0.40	150,000	9.5	0.40	75,000	75,000
0.435	30,000	9.7	0.435	30,000	—
0.245	1,700,000	9.9	0.245	—	1,700,000
0.30	1,075,000	10.0	0.30	—	1,075,000
	19,951,833	8.1	0.082	17,101,833	2,850,000

During the three months ended November 30, 2022, the Company recorded share-based payment of \$269,401 (2021 - \$158,564). During the nine months ended November 30, 2022, the Company recorded share-based payment of \$1,012,329 (2021 - \$582,392).

The fair values for stock options granted have been estimated using the Black-Scholes option-pricing model assuming no expected dividends, no forfeitures, and the following weighted average assumptions:

	Nine months ended November 30, 2022	Nine months ended November 30, 2021	Year ended February 28, 2022
Risk-free interest rate – RTO options	n/a	0.44%	0.44%
Risk-free interest rate – all other options	2.48%-2.65%	1.02%-1.15%	0.76%-1.64%
Expected volatility	100%	100%	100%
Expected option life (in years)	5	2.5 - 10	2.5 - 10

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### **11. Fair Value Measurements and Risk Management**

#### **(a) Fair Values**

The fair values of the Company's financial instruments, which include cash, trade and other receivables (excluding sales tax receivables), and accounts payable and accrued liabilities, approximate their carrying values due to the relatively short-term maturity of these instruments.

Notes payable and restricted cash are carried at amortized cost.

Derivative liabilities are carried at fair value. There are no significant differences between the carrying amounts of derivative financial instruments and their estimated fair values as at November 30, 2022 and February 28, 2022.

##### Fair value hierarchy

The following provides a description of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative liabilities are measured as a level 3 fair value measurement.

#### **(b) Credit Risk**

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and trade and other receivables. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. For trade and other receivables, the Company limits its exposure to credit risk by dealing with what management believes to be financially sound counter parties. The carrying amount of financial assets represents the maximum credit exposure.

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## 11. Fair Value Measurements and Risk Management (continued)

### (c) Foreign Exchange Rate Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in a foreign currency.

Small Pharma Ltd, the Company's operating subsidiary, operates in the UK and has certain monetary financial instruments denominated in British pound sterling. The Company has not entered into foreign exchange rate contracts to mitigate this risk.

The following table indicates the impact of foreign currency exchange risk on net working capital as at November 30, 2022. The table below also provides a sensitivity analysis of a 10% strengthening of the foreign currency against functional currencies identified which would have increased (decreased) the Company's comprehensive loss for the period by the amounts shown in the table below. A 10% weakening of the foreign currency against the functional currencies would have had the equal but opposite effect as at November 30, 2022.

	£
Cash	13,231,553
Trade and other receivables	484,814
Accounts payable and accrued liabilities	(3,609,005)
<b>Total foreign currency financial assets and liabilities</b>	<b>10,107,362</b>
<b>Impact of a 10% strengthening or weakening of foreign exchange rate</b>	<b>1,010,736</b>

### (d) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk as it does not have any liabilities with variable rates.

### (e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able 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 Company relies on raising debt or equity financing in a timely manner.

The following amounts are the contractual maturities of financial liabilities as at November 30, 2022 and February 28, 2022:

As at November 30, 2022	Total \$	Within 1 year \$	Within 2-5 years \$
Accounts payable and accrued liabilities	6,080,219	6,080,219	—
As at February 28, 2022	Total \$	Within 1 year \$	Within 2-5 years \$
Accounts payable and accrued liabilities	4,497,271	4,497,271	—

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### **12. Commitments**

The Company has commitments primarily for contracts supporting clinical trials. As at November 30, 2022, the Company is subject to commitments totaling approximately \$4,354,712 due within one year, \$335,833 due in the two years thereafter and a further \$38,248 in the fourth to fifth years.

### **13. Segmented Information**

The Company has one operating segment, research and development ("R&D") of psychedelic and non-psychedelic medicine. The Company's head office and operations are in the UK. Geographic information for non-current assets is as follows:

As at November 30, 2022	Canada \$	UK \$	Total \$
Property and equipment	–	55,068	55,068
	–	55,068	55,068
As at February 28, 2022	Canada \$	UK \$	Total \$
Restricted cash	2,500,000	–	2,500,000
Property and equipment	–	61,789	61,789
	2,500,000	61,789	2,561,789

For the three and nine months ended November 30, 2022, the Company did not generate any revenue (November 30, 2021 - \$nil).

### **14. Subsequent Events**

On December 8, 2022, the Company cancelled 112,500 common shares. The shares were cancelled pursuant to purchases made by the Company under the NCIB during November 2022.

On January 11, 2023, the Company submitted a claim for an R&D tax credit of \$1,914,037 (£1,182,015) in relation to qualifying R&D expenditure incurred in the fiscal year ended February 28, 2022. The R&D tax claim is subject to review by the UK tax authorities and there exists an element of uncertainty that the final quantum of the claim agreed may differ.