

**VAXIL BIO LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

# **VAXIL BIO LTD.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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## Independent Auditors' Report

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To the Shareholders of Vaxil Bio Ltd.

### ***Opinion***

We have audited the consolidated financial statements of Vaxil Bio Ltd. and its subsidiaries (together the “Company”), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material account policy information.

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

### ***Basis for Opinion***

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

### ***Material Uncertainty Related to Going Concern***

We draw attention to Note 1 in the consolidated financial statements, which indicates the Company for the year ended December 31, 2023 the Company incurred a net loss of \$254,000 and had negative cash flows from operating activities of \$560,000 and as of that date, had an accumulated deficit of \$19,357,000. As stated in Note 1, these events or conditions, along with other matters as set forth in note 1, indicate that a materiality uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at and for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

### ***Other information***

Management is responsible for other information. The other information comprises the information included in the Management Discussion and Analysis (“MD&A”), but does not include the consolidated financial statements and our auditors' report thereon.



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

In connection with our audits of the consolidated financial statements, our responsibility is to read the MD&A identified above and, in doing so, consider whether the MD&A is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be misstated.

We obtained the MD&A prior to the date of this auditors' report. If based on the work we have performed on this MD&A, we conclude that there is a material misstatement of this MD&A, we are required to report the fact in this auditors' report. We have nothing to report in this regard.

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

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

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

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

### ***Auditors' Responsibilities for the Audits of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audits. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material



uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audits. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audits resulting in this independent auditors' report is Laurence W. Zeifman, CPA, CA.

Toronto, Ontario  
April 25, 2024

*Zeifmans LLP*

Chartered Professional Accountants  
Licensed Public Accountants

**VAXIL BIO LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in thousands of Canadian Dollars)

	Note	December 31, 2023	December 31, 2022
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	5	\$ 938	\$ 1,510
Amounts receivable and prepaid expenses	6	38	31
<b>Total assets</b>		<b>\$ 976</b>	<b>\$ 1,541</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9, 12	\$ 85	\$ 405
<b>Total liabilities</b>		<b>85</b>	<b>405</b>
<b>Shareholders' equity</b>			
Share capital	7	16,074	16,074
Warrant reserve	7	-	324
Equity reserves	7	4,255	3,911
Accumulated other comprehensive loss		(81)	(70)
Accumulated deficit		(19,357)	(19,103)
<b>Total shareholders' equity</b>		<b>891</b>	<b>1,136</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 976</b>	<b>\$ 1,541</b>

**Nature and continuance of operations and going concern** (Note 1)

Approved and authorized by the Board on April 25, 2024:

<u>“Gadi Levin”</u> Gadi Levin	Director	<u>“Ari Kellen”</u> Ari Kellen	Director
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The accompanying notes are an integral part of these consolidated financial statements.

**VAXIL BIO LTD.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Expressed in thousands of Canadian Dollars, except per share data)

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	<u>Note</u>	<b>Year ended</b>	
		<b>December 31,</b>	
		<u>2023</u>	<u>2022</u>
<b>Expenses:</b>			
General and administration costs	<b>13</b>	\$ <b>120</b>	\$ 224
Research and development	<b>12</b>	<b>114</b>	343
Share based compensation	<b>7</b>	<b>20</b>	17
<b>Total Expenses</b>		<u><b>254</b></u>	<u>584</u>
<b>Operating Loss</b>		<b>(254)</b>	(584)
<b>Net loss for the year</b>		<u><b>(254)</b></u>	<u>(584)</u>
<b>Other comprehensive loss</b>			
Foreign currency translation adjustment		<u><b>(11)</b></u>	<u>3</u>
<b>Comprehensive loss for the year</b>		<u><b>\$ (265)</b></u>	<u>\$ (581)</u>
<b>Basic and fully diluted loss per share</b>		<u><b>\$ (0.01)</b></u>	<u>\$ (0.01)</u>
<b>Weighted average number of shares outstanding</b>		<u><b>136,978,973</b></u>	<u>136,978,973</u>

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

**VAXIL BIO LTD.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in thousands of Canadian Dollars)

	Share capital		Warrant reserve	Equity reserves	Accumulated other comprehensive loss	Accumulated deficit	Total Shareholders' equity
	Number of shares	Amount					
<b>Balance - December 31, 2021</b>	<b>136,978,973</b>	<b>\$ 16,074</b>	<b>\$ 358</b>	<b>\$ 3,860</b>	<b>\$ (73)</b>	<b>\$ (18,519)</b>	<b>\$ 1,700</b>
Share based compensation	-	-	-	17	-	-	17
Expiration of warrants	-	-	(34)	34	-	-	-
Net income (loss) and comprehensive income (loss) for the year	-	-	-	-	3	(584)	(581)
<b>Balance - December 31, 2022</b>	<b>136,978,973</b>	<b>\$ 16,074</b>	<b>\$ 324</b>	<b>\$ 3,911</b>	<b>\$ (70)</b>	<b>\$ (19,103)</b>	<b>\$ 1,136</b>
Share based compensation (Note 7 (c(vi)))	-	-	-	20	-	-	20
Expiration of warrants (Note 7 (d))	-	-	(324)	324	-	-	-
Net loss and comprehensive loss for the year	-	-	-	-	(11)	(254)	(265)
<b>Balance -December 31, 2023</b>	<b>136,978,973</b>	<b>\$ 16,074</b>	<b>\$ -</b>	<b>\$ 4,255</b>	<b>\$ (81)</b>	<b>\$ (19,357)</b>	<b>\$ 891</b>

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

**VAXIL BIO LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of Canadian Dollars)

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	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities</b>		
Net loss for the year	\$ (254)	\$ (584)
Items not affecting cash:		
Depreciation	-	2
Share-based compensation	20	17
Changes in non-cash working capital:		
Amounts receivable and prepaid expenses	(7)	11
Accounts payable and accrued liabilities	(320)	(180)
<b>Net cash flows used in operating activities</b>	<b>(561)</b>	<b>(734)</b>
<b>Net decrease in cash before effect of exchange rate changes</b>	<b>(561)</b>	<b>(734)</b>
Effect of changes in foreign exchange rates	(11)	3
Net decrease in cash	(572)	(731)
Cash, beginning of year	1,510	2,241
Cash, end of year	<b>\$ 938</b>	<b>\$ 1,510</b>

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

**VAXIL BIO LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

(Expressed in Thousands of Canadian Dollars, except per share data)

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**1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN**

Vaxil Bio Ltd. (“Vaxil, and with its subsidiaries, the “Company”) was incorporated under the Business Corporations Act (British Columbia) on July 26, 2006. Vaxil is a biotechnology company that is focused on a novel drug discovery and development platform based on Signal Peptides (“SPs”) to fight infectious diseases and cancer. On August 2, 2023, the Company announced that, given the need for additional investment, the Company is exploring new sources of capital and potential partners to support continued development of this platform. In parallel, the board of directors is actively exploring strategic options for maximizing shareholder value from the Company’s assets, which may not be a continuation of the business in its current form.

Vaxil’s common shares (the “Common Shares”) trade on the TSX-V under the symbol “VXL.V”. The Company’s head office is located at 3400 One First Canadian Place, ON, M5X 1A4, Toronto, Ontario.

The accompanying consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception of \$19,357, is currently in the development stage and has not commenced commercial operations. The Company’s ability to continue as a going concern is dependent upon its ability to attain future profitable operations and to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. As of December 31, 2023, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its products, all of which may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company not be able to continue as a going concern.

These consolidated financial statements were authorized for issue by the Board of Directors on April 25, 2024.

**VAXIL BIO LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

(Expressed in Thousands of Canadian Dollars, except per share data)

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**2. BASIS OF PREPARATION**

***Statement of Compliance***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

The Company’s accounting policies applied in these consolidated financial statements are based on IFRS issue and effective for the accounting year ended December 31, 2023.

The Board of Directors have the power to amend the consolidated financial statements after their issuance.

***Basis of Presentation***

The consolidated financial statements are presented in Canadian dollars which is the Company’s reporting currency. A summary of the significant accounting policies is provided in Note 3.

***Basis of Measurement***

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments which have been measured at fair value.

***Basis of Consolidation***

These consolidated financial statements include the accounts of Vaxil and its wholly-owned subsidiaries Vaxil Bio Ltd. (an Israeli entity) (“Vaxil Israel”), and Vaxil Biotherapeutics Ltd. (Israel) (“Vaxil Biotherapeutics”). All intercompany balances and transactions have been eliminated on consolidation.

**VAXIL BIO LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

(Expressed in Thousands of Canadian Dollars, except per share data)

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**3. MATERIAL ACCOUNTING POLICY INFORMATION**

***Cash and cash equivalents***

Cash includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

***Translation of Foreign Currencies***

These consolidated financial statements are presented in Canadian dollars. The functional currency of Vaxil is the Canadian dollar. The functional currency of Vaxil Israel and Vaxil Biotherapeutics is the New Israeli Shekel (“NIS”).

Translation gains or losses resulting from the translation of the financial statements of Vaxil Israel and Vaxil Biotherapeutics into Canadian dollars for presentation purposes are recorded in other comprehensive (loss) income. The assets and liabilities of foreign operations are translated into Canadian dollars at period-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates.

Within each entity, transactions in currencies other than the functional currency (“foreign currencies”) are translated to the functional currency at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the end of each reporting period at the period-end exchange rate. Exchange gains and losses on the settlement of transactions and the translation of monetary assets and liabilities to the functional currency are recorded in profit or loss.

***Research and Development***

Research and development costs are expensed as incurred.

Expenditures during the development phase are deferred as intangibles if the Company can demonstrate each of the following criteria: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale, (ii) its intention to complete the intangible asset and to then either use or sell it, (iii) its ability to use or sell the intangible asset, (iv) how the intangible asset will generate probable future economic benefits, (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development; otherwise, they are expensed as incurred.

***Impairment of Long-Lived Assets***

Equipment and intangible asset with finite lives are reviewed for an indication of impairment at the end of each reporting period. If indication of impairment exists, the asset’s recoverable amount is estimated. The recoverable amount is the greater of the asset’s fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**VAXIL BIO LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

(Expressed in Thousands of Canadian Dollars, except per share data)

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Financial Instruments***

## a) Classification

The following table shows the classification of financial instruments under IFRS 9:

<b>Financial asset/liability</b>	<b>Classification</b>
Cash	FVTPL
Accounts payable and accrued liabilities	Amortized cost

The Company determines the classification of financial assets at initial recognition. The classification of its instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading (including all equity derivative instruments) are classified as fair value through profit and loss ("FVTPL"). For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them at fair value through other comprehensive income ("FVTOCI"). Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

## b) Measurement

***Financial assets and liabilities at amortized cost***

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

***Financial assets and liabilities at FVTPL***

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net income (loss) in the period in which they arise. Where Company has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

## c) Impairment of financial assets at amortized cost

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

**VAXIL BIO LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

(Expressed in Thousands of Canadian Dollars, except per share data)

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Financial Instruments (continued)***

For internal credit risk management purposes, the Company considers a financial asset not recoverable if the customer balance owing is 180 days past due and information obtained from the customer and other external factors indicate that the customer is unlikely to pay its creditors in full.

Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the counterparty does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

	FAIR VALUE INPUT LEVEL	As at December 31, 2023		As at December 31, 2022	
		CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
		Financial Assets:			
Cash (Note 5)	1	\$ 938	\$ 938	\$ 1,510	\$ 1,510

***Government Grants***

The Company is eligible for grants from the Office of Chief Scientist, Ministry of Economy of the State of Israel ("OCS") granted as support for Vaxil Biotherapeutics' research and development efforts ("OCS grants"). The Company classified these grants as "forgivable loans" as set out in IAS 20 – "Accounting for Government Grants and Disclosure of Government Assistance". The accounting treatment for the grant depends on the Company's ability to obtain FDA approval, with which it may go into production in the future. Accordingly, the grant is recorded against research and development costs. Credit related to grants recognized against research and development costs are recorded at fair value when there is reasonable assurance that they will be received, and the Company will comply with the condition associated with the credits.

Government loans are recognized and measured as set out in IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37"). No liability has been recognized during the period, as it is not reasonable that a provision be recognized. A government grant that becomes repayable shall be accounted for as a change in accounting estimate.

***Share-based Payments***

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense with a corresponding increase to equity reserves in the consolidated financial statements.

The fair value determined at the grant date of equity-settled share-based payments is expensed using the graded vesting method over the vesting period based on the Company's estimate of shares that will eventually vest. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in equity reserves is recorded as an increase to share capital. Shares are issued from treasury upon the exercise of equity-settled share-based instruments.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Share-based Payments (continued)***

Compensation expense on stock options granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

***Share Capital***

Common shares are classified as equity. Proceeds from unit placements are allocated between shares and warrants issued using the relative fair value method. Costs directly identifiable with share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations in the period they are incurred.

***Warrant Reserve***

The fair value of warrants is determined upon their issuance either as part of unit private placements or in settlement of share issuance costs and finders' fees, using the Black-Scholes model. All such warrants are classified as a warrant reserve within equity. If the warrants are converted, the value attributable to the warrants is transferred to common share capital. Upon expiry, the amounts recorded for expired warrants are transferred to the equity reserve from the warrant reserve. Shares are issued from treasury upon the exercise of share purchase warrants.

***Income taxes***

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent they relate to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets are recognized to the extent future recovery is probable. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all of part of the asset to be recovered.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***Basic and Diluted Loss per Share***

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock.

The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Diluted amounts are not presented when the effect of the computations are anti-dilutive. Accordingly, at present, there is no difference in the amounts presented for basic and diluted loss per share.

#### ***Provisions***

A provision in accordance with IAS 37 is recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### ***Significant Accounting Judgments and Estimates***

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods when the revision affects both current and future periods.

The critical judgments and significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are:

- Provisions are recognized when: a) the Company has a present obligation (legal or constructive) as a result of a past event; and b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

A contingent liability is not recognized in the case where no reliable estimate can be made; however, disclosure is required unless the possibility of an outflow of resources embodying economic benefits is remote. By its nature, a contingent liability will only be resolved when one or more future events occur or fail to occur. The assessment of a contingent liability inherently involves the exercise of significant judgment and estimates of the outcome of future events.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Significant Accounting Judgments and Estimates (continued)*

- The series of loans made to the subsidiary company are considered part of the parent company's net investment in a foreign operation as the Company does not plan to settle these balances in the foreseeable future. As a result of this assessment, the unrealized foreign exchange gains and losses on the intercompany loans are recorded through other comprehensive loss. If the Company determined that settlement of these amounts was planned or likely in the foreseeable future, the resultant foreign exchange gains and losses would be recorded through profit or loss.
- Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.
- Management assesses the fair value of options and warrants granted in accordance with the accounting policy disclosed in share-based payments. The fair value of stock options granted is measured using the Black-Scholes option valuation model, which was created for use in estimating the fair value of freely tradable and fully transferable options. The same model is used by the Company in order to arrive at a fair value for the issuance of warrants.
- Management expenses the costs directly associated with research and development, unless the development asset recognition criteria is met. Indirect costs are estimated using management's calculation of the amount of the activity that is deemed to be associated with research and development.
- In order to assess whether it is appropriate for the company to continue as a going concern, management is required to apply judgment and make estimates with respect to future cash flow projections. In arriving at this judgment, there were a number of assumptions and estimates involved in calculating these future cash flow projections. This includes making estimates regarding the timing and amounts of future expenditures and the ability and timing to raising additional financing.

**VAXIL BIO LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**4. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for future accounting periods. Many are not applicable to or would not have a significant impact on the Company's consolidated financial statements.

**5. CASH**

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
In US dollars	\$ 30	\$ 27
In Canadian dollars	897	1,376
In NIS	11	107
	<u>\$ 938</u>	<u>\$ 1,510</u>

**6. AMOUNTS RECEIVABLE AND PREPAID EXPENSES**

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Sales tax recoverable	\$ 19	\$ 20
Prepayments	19	11
	<u>\$ 38</u>	<u>\$ 31</u>

**7. SHARE CAPITAL AND RESERVES****a. Issued and authorized share capital:**

As of December 31, 2023, the authorized share capital of the Company is an unlimited number of Common Shares without par value. All issued shares, consisting only of common shares are fully paid. As of December 31, 2023, the Company had 136,978,973 (2022 – 136,978,973) Common Shares issued and outstanding.

**b. Transactionss during the year:**

There were no issuances of Common Shares during the years ended December 31, 2023 and 2022.

**VAXIL BIO LTD.**

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**7. SHARE CAPITAL AND RESERVES (CONTINUED)****c. Stock options:**

Stock option transactions during the years ended December 31, 2023 and 2022 are summarized as follows:

	Options Issued	Average Exercise Price
<b>Balance outstanding at December 31, 2021</b>	<b>6,632,199</b>	<b>\$ 0.10</b>
Expired (i)	(585,727)	0.13
Forfeited (ii)	(5,246,472)	0.09
Issued (iii)	800,000	0.05
<b>Balance outstanding at December 31, 2022</b>	<b>1,600,000</b>	<b>\$ 0.09</b>
Issued (iv)	1,100,000	0.05
Forfeited (v)	(500,000)	0.06
<b>Balance outstanding at December 31, 2023</b>	<b>2,200,000</b>	<b>\$ 0.07</b>

- (i) On January 3, 2022, 585,727 options with a fair value at issue date of \$73 expired unexercised.
- (ii) On March 13, 2022, 5,246,472 options with a fair value at issue date of \$496 were forfeited.
- (iii) On June 20, 2022, the Company granted 800,000 stock options to two consultants of the Company. The options are exercisable at \$0.05 per share and vest in eight equal quarterly instalments over a two- year period from the grant date and expire on June 20, 2027. The fair value of the options at issue date was determined to be \$22 based on the Black-Scholes option pricing model using the following assumptions: share price - \$0.03; exercise price - \$0.05; expected life – 5 years; annualized volatility – 173%; dividend yield – 0%; risk free rate – 0.48%; forfeiture rate of 0%.
- (iv) On August 2, 2023, the Company granted 1,100,000 stock options to directors, officers and consultants of the Company. The options are exercisable at \$0.05 per share and vest in four equal quarterly instalments over a one-year period from the grant date and expire on August 2, 2028. The fair value of the options at issue date was determined to be \$15 based on the Black-Scholes option pricing model using the following assumptions: share price - \$0.015; exercise price - \$0.05; expected life – 5 years; annualized volatility – 187%; dividend yield – 0%; risk free rate – 0.424%; forfeiture rate of 0%.
- (v) On October 13, 2023, 500,000 options with a fair value at issue date of \$21 were forfeited.
- (vi) For the year ended December 31, 2023, the Company recorded \$20 as share based compensation in respect of current and prior period option grants (for the year ended December 31, 2022: \$17).

**VAXIL BIO LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**7. SHARE CAPITAL AND RESERVES (CONTINUED)**

## c. Stock Options (continued)

(vii) As of December 31, 2023, the Company had options outstanding on Common Shares as follows:

Options Outstanding			Options Exercisable	
Number Outstanding at December 31, 2023	Exercise Price	Expiry Date	Exercisable at December 31, 2023	Weighted Exercise Price
700,000	\$ 0.12	September 14, 2025	700,000	\$ 0.12
400,000	0.05	June 20, 2027	300,000	0.05
1,100,000	0.05	August 2, 2028	275,000	0.05
<b>2,200,000</b>	<b>\$ 0.07</b>		<b>1,275,000</b>	<b>\$ 0.09</b>

## d. Common Share Purchase Warrants

Common Share purchase warrant transactions for the years ended December 31, 2023 and 2022 are summarized as follows:

	Warrants Issued	Weighted average exercise price
<b>Balance at December 31, 2021 and 2022</b>	<b>10,409,440</b>	<b>\$ 0.10</b>
Expired (i)	(10,409,440)	0.10
<b>Balance at December 31, 2023</b>	<b>-</b>	<b>\$ -</b>

(i) During the year ended December 31, 2023, 10,409,440 share purchase warrants with a fair value at issue date of \$324 expired unexercised.

## e. Finders' Unit Purchase Warrants

Finders' Unit Purchase Warrants transactions for the years ended December 31, 2023 and 2022 are summarized as follows:

	Finders' Warrants Issued	Weighted average exercise price
<b>Balance at December 31, 2021</b>	<b>504,653</b>	<b>\$ 0.10</b>
Expired (i)	(406,653)	0.10
Expired (ii)	(98,000)	0.10
<b>Balance at December 31, 2022 and 2023</b>	<b>-</b>	<b>\$ -</b>

(i) On November 23, 2022, 406,653 warrants expired with a fair value of \$27.

(ii) On December 9, 2022, 98,000 warrants expired with a fair value of \$7.

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**8. INCOME TAXES**

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2022: 26.5%) to the effective tax rate for the years ended December 31, 2023 and 2022 is as follows:

	<b>2023</b>	<b>2022</b>
Loss before income taxes	\$ (254)	\$ (581)
Expected income tax recovery	\$ (67)	\$ (155)
Difference in foreign tax rates	5	13
Share based compensation and other non-deductible expenses	5	4
Other	65	(7)
Change in tax benefits not recognized	(8)	145
Income tax expense (recovery)	\$ -	\$ -

**Deferred Tax**

The Company's unrecognized deferred tax assets are as follows:

	<b>2023</b>	<b>2022</b>
Reserves	\$ -	\$ 61
Share issuance costs	2	12
Operating tax losses carried forward – Canada	1,236	1,208
Operating tax losses carried forward – Israel	2,693	2,658
	3,931	\$ 3,939
Less: Valuation allowance	(3,931)	(3,939)
	-	-

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The Canadian non-capital loss carry forwards expire as follows:

2031	\$ 189
2032	289
2033	302
2034	270
2035	176
2036	468
2037	894
2038	643
2039	333
2040	329
2041	419
2042	208
2043	110
<b>Total</b>	<b>\$ 4,680</b>

Israeli net operating losses of \$11,709 carry forward indefinitely.

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**9. RELATED PARTY TRANSACTIONS AND BALANCES**

The following are the expenses incurred with key management for the year ended December 31, 2023 and 2022 and the balances owing as of December 31, 2023 and 2022:

For the year ended December 31, 2023:

	Directors Fees	Consulting fees, professional fees and laboratory experiments	Share based awards	Total	Amounts owing at December 31, 2023
Gadi Levin, Director and CEO*	\$ -	\$ 51	\$ 2	\$ 53	\$ 3
Alan Rootenberg, CFO **	-	9	4	13	2
Yuval Avnir, former CEO ***	-	35	-	35	-
Daniel Bloch, Director	-	6	3	9	-
Ari Kellen, Director	-	-	-	-	-
Shawn Langer, Director	-	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 101</b>	<b>\$ 9</b>	<b>\$ 110</b>	<b>\$ 5</b>

(\* ) Mr. Gadi Levin was appointed as the CEO effective July 31, 2023. Mr. Levin was previously the CFO.

(\*\* ) Mr. Alan Rootenberg was appointed as the CFO effective July 31, 2023.

(\*\*\*) Through to July 31, 2023

For the year ended December 31, 2022:

	Directors Fees	Consulting fees, professional fees and laboratory experiments	Share based awards	Total	Amounts owing at December 31, 2022
Gadi Levin, Director and CFO	\$ -	\$ 72	\$ -	\$ 72	\$ 6
Yuval Avnir, CEO	-	54	-	54	5
Ari Kellen, Director	-	-	-	-	-
Shawn Langer, Director	-	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 126</b>	<b>\$ -</b>	<b>\$ 126</b>	<b>\$ 11</b>

These transactions are in the ordinary course of business and are measured at the amount of consideration set and agreed by the related parties.

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**10. CAPITAL MANAGEMENT**

The Company's capital comprises share capital, equity reserves and accumulated other comprehensive loss. The Company manages its capital structure, and makes adjustments to it, based on the funds available to the Company in order to support the Company's business activities. The Board of Directors does not establish quantitative return on capital criteria for management; it relies on the expertise of the Company's management to sustain future development of the business.

The intellectual property in which the Company currently has an interest is in the development stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned research and development and pay for administrative costs, the Company intends to raise additional amounts 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.

**11. FINANCIAL AND CAPITAL RISK MANAGEMENT***Fair value*

The carrying value of amounts receivable and accounts payable and other accounts payable and accrued liabilities approximated their fair value because of the relatively short-term nature of these instruments. Cash, which is classified as held for trading and carried at fair value, has been determined using Level 1 inputs.

*Foreign exchange risk*

The Company is exposed to foreign currency fluctuation on its operations in Israel and United States dollars, which are denominated in Israel New Shekels. Sensitivity to a plus or minus 10% change in rates would not have a significant effect on the net income (loss) of the Company.

*Credit risk*

The Company manages credit risk, in respect of cash, by holding it at major Canadian and Israeli financial institutions in accordance with the Company's investment policy. The Company places its cash with high credit quality Israeli and Canadian financial institutions. Concentration of credit risk exists with respect to the Company's cash. The Company's exposure as of December 31, 2023 and December 31, 2022 was \$938 and \$1,510 respectively, which consisted of \$938 (December 31, 2022 - \$1,510) in cash held in bank accounts.

*Interest rate risk*

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates, but it does not believe it is currently subject to any significant interest rate risk.

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**11. FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)***Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet current obligations and future commitments. The Company's approach to managing liquidity risk is to forecast cash requirements to provide reasonable assurance that it will have sufficient funds to meet its liabilities when due. As of December 31, 2023, the Company had cash of \$938 (December 31, 2022 - \$1,510) to settle current liabilities in the amount of \$85 (December 31, 2022 - \$405).

**12. RESEARCH AND DEVELOPMENT COSTS**

	Year ended December 31,	
	2023	2022
Laboratory experiments and materials	\$ 35	\$ 231
Wages, salaries and related expenses	-	39
Consultants and sub-contractors	18	16
Patent registrations	61	57
	<u>\$ 114</u>	<u>\$ 343</u>

**13. GENERAL AND ADMINISTRATION COSTS**

	Year ended December 31,	
	2023	2022
Professional fees	\$ 7	\$ 118
Consulting and management fees	63	72
Insurance	20	17
Public company expenses	15	2
Office rental and other	20	13
Gain on sale of equipment	(5)	-
Depreciation	-	2
	<u>\$ 120</u>	<u>\$ 224</u>